

# NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



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## THESIS

**CAUSES OF NEGATIVE UNLIQUIDATED  
OBLIGATIONS IN THE MARINE CORPS'  
OPERATIONS AND MAINTENANCE  
APPROPRIATION AND RECOMMENDATIONS  
FOR THEIR ELIMINATION**

by

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December 1995

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THEIR ELIMINATION**

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Submitted in partial fulfillment  
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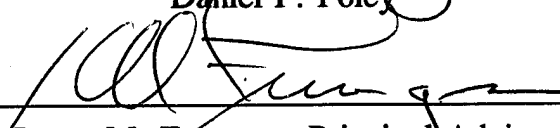
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## ABSTRACT

The purpose of this thesis was to identify and analyze the causes of negative unliquidated obligations (NULO) in the O&M, MC appropriation, using sample data drawn from Marine Corps Base, Camp Pendleton, California. NULOs exist when recorded expenditures (liquidations) exceed amounts obligated. As such, NULOs represent out-of-balance conditions that should not have occurred. NULOs were found to be correlated with unmatched disbursements, specific transaction types (USMC Standard Accounting, Budgeting and Reporting System (SABRS) Document Identifier Codes "XSI" and "XRA"), and contracts containing multiple Contract Line Item Numbers. The thesis categorized causes as either fund administrator errors or disbursing errors. Eighty-eight percent of NULOs were attributable to fund administrators' failure to record obligations initially, or only partially, and erroneous adjustments to recorded obligations. SABRS' internal controls were found to be only partially effective due to their reliance upon data elements that were incorrectly or incompletely input into SABRS and other accounting procedural weaknesses. NULOs remained uncorrected due to a lack of management reports detailing NULOs and fund administrators' failure to use existing management exception reports to identify and correct NULOs.



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## I. INTRODUCTION

The 1994 Department of Defense Annual Report to the Congress contained a frank admission of "clear failings in DoD's financial management systems." [Ref. 1:p. 97] The specifics underlying the Secretary of Defense's admission of "clear failings" refers to the issues of unmatched disbursements and negative unliquidated obligations, conditions which have been increasingly cited as evidence of financial mismanagement within the Department of Defense.

An unmatched disbursement is "any disbursement received by an accounting office that cannot be accurately posted to the correct detail obligation record." [Ref. 2:p. I-1] The Department of Defense (DoD) Annual Report cited a total of \$19 billion in disbursements that could not be matched to an existing financial obligation. The reported figure is a smaller subset of \$41 billion in undistributed disbursements - disbursements not currently posted/liquidated to a recorded obligation - as of March 31, 1993, identified by the DoD's Special Task Force on Disbursement Problems on June 30, 1993. [Ref. 24:p. 1] Of the reported total, \$22 billion was classified as "undistributed" or non-problem disbursements, while the balance, \$19 billion, was classified as "unmatched" or problem disbursements for which "(1) at least one attempt to properly match the disbursement to a corresponding obligation had failed or (2) the recorded expenditures exceeded obligations, thus causing a negative unliquidated obligation." [Ref. 24:pp. 1-2] The reported \$19 billion of problem disbursements became a bench-mark upon which problem disbursement reduction efforts were to be measured.

Negative unliquidated obligations occur when recorded expenditures exceed the amount obligated. Understanding the exact terminology - negative unliquidated obligation - requires an understanding of what constitutes an "obligation" and what

condition is described by the term "liquidated obligation." These terms are defined, as follows:

An **obligation** is created by any action which legally binds (obligates) the federal government to the future payment of money. The term has no corollary in commercial accounting practice. It is best understood as a reduction in spending authority. An obligation exists in one of three states, (1) as an undelivered order of goods or services (an economic event not recognized as such in commercial accounting practice), (2) an accrued expenditure - unpaid (accounts payable), or (3) as an accrued expenditure - paid (asset or expense).

A **liquidation** is payment for goods or services used by the government. Liquidation occurs when a disbursing officer receives a properly certified invoice from an authorized Fund Holder, validates the claim against the government, and makes payment to the party providing the goods or services. The Marine Corps' official accounting system, Standard Accounting, Budgeting and Reporting System (SABRS), automatically records liquidations by pulling data from the Marine Corps Expenditure Reimbursement Reporting System (MCERRS), into which disbursing offices have entered payment data, providing a valid obligation is resident within SABRS.

An **unliquidated obligation** is the condition in which the obligation, in whole or in part, is available to post future liquidations. A negative unliquidated obligation is the negative or opposite of a liquidated obligation - a condition in which the disbursement exceeds the value of the underlying obligation. In accounting terms, a negative unliquidated obligation is an apparent overpayment and a receivable due the Government. For this reason, the existence of a negative unliquidated obligation constitutes an out-of-balance condition that should not have occurred. It suggests a breakdown in internal financial controls. As of 1 October,

1994 negative unliquidated obligations within Department of Defense component accounts "exceeded \$6 billion." [Ref. 9]

Negative unliquidated obligations (NULO) and unmatched disbursements (UMD) Marine Corps-wide on October 1, 1994 totalled \$553,716,000, and \$401,855,000 respectively, summarized as follows: [Ref. 4]

APPROPRIATION & SYMBOL	NULO	UMD
RDT&E, Navy (1319)	\$ 48,389,000	\$ 39,222,000
Procurement, MC (1109)	239,958,000	287,161,000
Oper. & Maint., MC (1106)	257,918,000	57,113,000
Oper. & Maint., MCR (1107)	<u>7,451,000</u>	<u>18,359,000</u>
Total	\$553,716,000	\$401,855,000

**Table 1-1. Marine Corps NULOs, 1 October 1994**

An aging of these categories of problem disbursements indicated a high percentage as over 180 days old; 69 and 79 percent respectively for NULOs and UMDs. [Ref. 48]

#### **A. THESIS QUESTION**

The subject of this thesis is NULOs. Specifically, what are the causes of NULOs in the Marine Corps' Operations and Maintenance (O&M) appropriation and what courses of action possess the greatest likelihood for eliminating them?

Department of Defense efforts to address problems relating to NULOs have generally been undertaken in conjunction with efforts relating to the elimination of unmatched disbursements, under the general category of disbursement problems. The issue of NULOs is, potentially, a much broader issue than just the failure of the accounting system to match disbursements to outstanding obligations. If a

NULO condition reflects an actual transaction balance, then it does so as a result of an overpayment or as a result of an understatement of a financial obligation. Under either scenario a NULO condition is a serious issue, involving a near total breakdown in internal controls on the one hand and a violation of the Anti-deficiency Act (13 U.S.C. 1341), with possible criminal penalties, on the other. If a NULO condition is the result of an erroneous posting of an UMD, then the issue may be appropriately studied in conjunction with efforts to eliminate unmatched disbursements - the failure of the accounting system to correctly match disbursements to outstanding obligations. Considering the magnitude of the problem, the question begs an answer.

## **B. THESIS SCOPE**

The scope of this thesis was limited to the cause(s) of NULOs in the Marine Corps' O&M appropriation. On October 1, 1994, the Marine Corps was responsible for \$553 million, or 9.2% of NULOs DoD-wide. [Ref. 4] Of this total, \$265 million, 48% of the Marine Corps total, was resident within the Marine Corps' O&M appropriation. Sample data was drawn from Marine Corps Base (MCB), Camp Pendleton's O&M Sub-Operating Budget, which on October 1, 1994, ("October baseline") reported total NULOs of \$4.4 million - 1.7% of the Marine Corps' O&M total. Sixty-five NULOs, totalling \$589,305 or 21% of MCB, Camp Pendleton's June 30, 1995, NULO balance, were examined in detail.

NULOs are as important an issue in the Procurement, Marine Corps appropriation. The October 1994 baseline of NULOs recorded in the USMC procurement appropriation totalled \$288 million. [Ref. 4] Considering the different purposes of the Procurement, Marine Corps appropriation and the significantly largely financial transactions, \$50,000 and greater, no attempt was made to associate the causes of NULOs in one appropriation with that of another.



It is reasonable to assume that there is some commonality of causes leading to NULOs in both appropriations, however.

Undistributed and unmatched disbursements were addressed only to the extent that they related to the thesis subject. In a larger sense, however, the two issues and the thesis subject are frequently lumped together under the broad category of disbursement problems. In fact, because of the larger dollars associated with undistributed and unmatched disbursements, the issue of negative unliquidated obligations is generally addressed as a less significant issue. There is undoubtedly a level of correlation between the two issues - an unmatched disbursement for which there is no recorded obligation is a negative unliquidated obligation of the same amount - and the author will attempt to identify and quantify these interrelationships.

### **C. THESIS METHODOLOGY**

The research methodology employed in conducting this thesis was inductive in nature, relying primarily upon archival data extracted from the Marine Corps' official accounting system, SABRS. The SABRS database was accessed to identify those transactions in a NULO status. For those NULOs selected for detailed testing, transaction history summaries were cross referenced to original source documents to determine the validity of the NULO condition. Adjustments to recorded obligations were verified to source documents. Additional sources of information were obtained through the use of questionnaires and interviews with Marine Corps accounting officials.

### **D. CHAPTER OVERVIEW**

Chapter II traces the development of this issue from multiple perspectives. Decisions and directives relating to the thesis subject are examined at the DoD, Department of Navy (DoN), and Marine Corps level. The development of this issue is further explored from the perspective of the audit agencies (General

Accounting Office, Department of Defense Inspector General, and the Naval Audit Service) largely responsible for highlighting the existence and magnitude of this issue, as well as from the Congress and the media.

Chapter III provides the reader an overview of financial management within DoD, with emphasis on financial management within the DoN and USMC. The chapter explores the historical development of financial and accounting issues that have, in some manner, contributed to the current situation. The chapter discusses how the adoption of accrual-based accounting methods (Project PRIME) and the decentralization of accounting responsibilities brought about with the implementation of SABRS would parallel an increase in UMDs, on the one hand, and NULOs on the other. The interrelationship between the accounting, disbursing, and contracting functions within the Marine Corps is also discussed to lay the groundwork for financial management issues discussed in the chapters to follow.

Chapter IV identifies the causes of NULOs for the data sample. It segments the data sample by category of transaction and discusses each in turn. It defines the criteria for selection of a NULO transaction for detailed testing - a negative condition of \$1000 or more or 200% of the current obligation. It defines NULO error conditions as either fund administrator errors or disbursing errors and further segments these broad categories into specific causes. Chapter IV concludes by summarizing the causes of NULOs for the sample data examined.

Chapter V addresses two major issues, (1) why the identification of NULOs as problem transactions did not occur internally within the Marine Corps and (2) why existing SABRS' internal controls proved ineffective in identifying and preventing NULO conditions. Answers to these questions are necessary before addressing recommendations for prevention and elimination of NULOs.

Chapter VI addresses recommendations (organizational, procedural, and system changes), summarizes the results of the thesis research, and presents a

conclusion in terms of "lessons learned." In addition, the chapter addresses and analyzes corrective measures taken to date, namely in the form of prevalidation of disbursements to the detail obligation record. Appendix A is a questionnaire completed by the Marine Corps' NULO Coordinator on issues relating to the thesis subject. Appendices B and C are the data sample.

#### **E. BENEFITS OF THESIS RESEARCH**

This thesis is intended to supplement ongoing efforts to eliminate NULOs in the Marine Corps by examining, in detail, the specific actions and responsible offices that are leading to the creation of negative unliquidated obligations. Identifying specific errors occurring within the accounting system will allow the author to identify the specific causes of NULOs and to recommend actions to eliminate them. No meaningful corrective actions can be taken without knowing, in detail, where, how, and why errors leading to the condition known as negative unliquidated obligations are occurring.



## II. BACKGROUND

On March 31, 1994, the DoD Comptroller, Doctor John J. Hamre, announced policy on two accounting issues, undistributed disbursements and negative unliquidated obligations. Under the subject of Negative Unliquidated Balances/Disbursements In Excess of Obligations, terminology encompassing both unmatched disbursements and negative unliquidated obligations, Doctor Hamre put an end to the practice of "writing checks on accounts that are in the red, under the assumption that these accounts are in the red because of innocent accounting errors." [Ref. 5] While recognizing that, "generally, disbursements in excess of obligations occur as a result of accounting or disbursing errors," [Ref. 6:p. 1] he nonetheless termed the practice of disbursing funds in excess of available funds "unacceptable." [Ref. 5] He went on to describe current practices as "clearly contradictory to the Antideficiency Act [and a violation of] minimum standards of sound financial management." [Ref. 5] Effective immediately,

If disbursements exceed obligations and the appropriation manager or fund holder has sufficient unobligated balances available, an obligation will be required to cover such disbursements if the condition [disbursements in excess of obligations] is not corrected within a specified period of time--generally 120 days. [Ref. 5]

For the purposes of classifying NULOs and directing specific policy actions, the official pronouncement identified three different conditions in which disbursements in excess of obligations might occur, as follows: [Ref. 6:pp. 1-2]

**Condition 1.** Disbursements in excess of recorded obligations at the appropriation level when the appropriation manager does not have sufficient unobligated balances available in amounts that equal, or exceed, the amount by which disbursements exceed recorded obligations at the appropriation level.

**Condition 2.** Disbursement in excess of recorded obligations at the appropriation or fund holder level when the appropriation manager or fund holder does have sufficient unobligated balances available in amounts equal to, or in excess of, the amount by which disbursements exceed recorded obligations at the appropriation/fund holder level.

**Condition 3.** Disbursements in excess of obligations at the obligation level, including when no obligation has been recorded.

Although the effective date of the policy was immediate for Condition 1 and 2 NULOs, the effective date for Condition 3 NULOs was set six months hence, October 1, 1994. Additionally, Condition 3 - NULOs occurring at the obligation or document number level - were authorized an additional 60 days of research for correction and elimination of the condition before an obligation of additional funds would be required. Beginning October 1, 1994, six months/180 days would be allowed for the correction and elimination of Condition 3 NULOs before the obligation of additional funds.

The ramifications of this policy shift were significant, not only in terms of the potential loss of funds that implementation of the policy would entail but also in terms of attitudes within the services that had grown to accept these conditions as accounting glitches that must otherwise be accepted. In this two page memorandum, Doctor Hamre charted a new course within DoD that would no longer accept negative balances as acceptable conditions.

#### **A. EVOLUTION OF NULOS**

The evolution of this issue must largely be credited to the work of the General Accounting Office (GAO) and the Department of Defense - Inspector General (DoDIG), working in conjunction with the Senate Committee on Governmental Affairs. The GAO serves as the principal auditing arm of the Federal Government. The DoDIG serves as DoD's in-house audit and investigative

arm. Working in collaboration, the GAO conducting financial management audits and the Senate Committee on Governmental Affairs both directing GAO audits and serving as the forum for the release of report findings and follow-up public hearings, the Committee and the GAO have continued to focus attention on the Defense Department's "pervasive and fundamental financial management problems." [Ref. 13:p. 16] Since 1980, the GAO has issued 12 reports pertaining to DoD's disbursement problems, including NULOs recorded in DoD's accounting records and overpayments to contractors. [Ref. 24:p. 20] The DoDIG has also devoted considerable attention to disbursement problems existing in DoD, issuing three reports on the subject since 1991.

## **B. AUDIT AGENCY REPORTS**

A steady stream of GAO and the DoDIG reports have highlighted disbursement problems and poor fund control procedures within DoD. In regards to NULOs, these reports have addressed the magnitude, age, and causes of NULOs. The most recent reports and a brief summary of the report findings are discussed below.

### **1. GAO/AFMD-89-78**

"Air Force Records Contain \$512 Million in Negative Unliquidated Obligations," dated June 30, 1989. The audit disclosed that the five Air Force Logistics Centers had 6,257 individual NULO account balances totalling about \$512.0 million, of which \$132.0 million were at least 6 months old. The report noted that the Defense Finance and Accounting Service (DFAS) had not responded to requests for payment information needed to research the out-of-balance conditions.

### **2. GAO/AFMD-90-41**

"Army Records Contain Millions of Dollars in Negative Unliquidated Obligations," dated May 2, 1990. The report revealed that Army regulations did not require NULOs to be separately disclosed in reports to managers. For this

reason, personnel at the Department of the Army were not aware of the large amounts of NULOs.

### **3. GAO/AFMD-91-42**

"Air Force Systems Command Is Unaware of the Status of Negative Unliquidated Obligations," dated August 29, 1991. The report reviewed NULOs associated with the purchase of weapon systems and equipment at the Air Force Systems Command. The report highlighted, at the outset, that Air Force Systems Command managers were not fully aware of the magnitude of NULOs, although this information was available at the organization's payment division. The GAO's analysis of \$126 million of NULOs disclosed that processing errors accounted for \$30 million, \$23 million was attributable to an understatement of contracts on the official accounting records, \$4 million was attributable to contract price reductions to amounts below those already paid, and the remaining \$69 million was still unexplainable pending completion of a reconciliation of contract charges. Processing errors included citing the wrong appropriation when making and/or recording a payment and when information on contract modifications had not been properly updated in the accounting system.

### **4. DoDIG Report Number 92-028**

"Merged Accounts of the Department of Defense" dated December 30, 1991. The DoDIG reviewed the status of DoD's merged accounts, specifically, the validity of unliquidated obligations in DoD's "M" account, totalling \$18.8 billion as of November 4, 1990. Total obligations reviewed totalled \$16.1 billion, of which, \$8.0 billion was invalid. The audit also disclosed \$1.8 billion of "M" year undistributed Treasury disbursements and \$1.0 billion in NULOs. The report attributed negative balances to improperly posted disbursements and possible duplicate payments. The report recommended that the DoD Comptroller require



the Director, DFAS, to emphasize account accuracy to reduce unmatched disbursements and to formerly investigate all overdisbursed appropriations and their subaccounts to resolve potential violations of the Antideficiency Act.

#### **5. DoDIG Report Number 93-053**

"Missile Procurement Appropriations, Air Force" dated February 12, 1993. The IG identified 370 Air Force procurement contracts with net NULO balances of more than \$133.0 million that were maintained by Los Angeles Air Force Base and DFAS-Columbus. The report recommended that the Comptroller, DoD, accelerate plans to solve problems with NULOs. At a minimum, a single record should be used to account for funds and pay bills, and disbursing stations should verify that funds are available before payment is made.

These reports have documented that a high percentage of UMDs and NULOs are attributable to contract payments. It is not surprising that this would be the case. The vast majority of the Defense Department's budget for equipment, supplies and material, and services is expended in the commercial sector. Activities whose principal purpose is the procurement of weapon systems and major end items rely almost exclusively on the commercial sector to fulfill these requirements. Activities funded by an O&M appropriation, an expense-type appropriation, may rely to a greater extent upon their own service supply system or the Defense Logistics Agency for their material, supplies, and service requirements. Even here, however, the ultimate source of supply is the commercial sector. An interfund transfer at one level must ultimately be supported by a commercial sector contract. Commercial sector contracts likewise constitute a majority of NULOs selected for detailed testing in Chapter IV, encompassing 71% of the number, and 90% of the dollar value of total NULOs.

One DoDIG Report (94-054), "Audit of Fund Control Over Contract Payments At The Defense Finance And Accounting Service - Columbus Center"

dated March 15, 1994, bears some important similarities to this thesis. The report documents poor functional relationships existing at each stage of the transaction processing cycle - contract award and modification, disbursing, and accounting operations. Specifically, the subdivision of contracts into multiple Contract Line Item Numbers (CLIN) and Sub-contract Line Item Numbers (SLIN) resulted in the accounting recognition of as many distinct obligations, each uniquely referenced by a fiscal document number. In addition, contracts citing multiple lines of accounting data, Accounting Classification Reference Numbers (ACRN), encountered higher processing error rates and were more apt to contain NULOs at the obligation, or ACRN level. Contracts that, in total, were not over-disbursed were found to contain NULOs at the CLIN or ACRN level. Because Federal Acquisition Regulations (FAR) don't require contractors to invoice the government by CLIN or ACRN, contracts are not written to require it. As a result, payments can be misallocated to CLINs and ACRNs that comprise the fiscal structure of the contract. Although the preponderance of Chapter IV's data sample is comprised of contracts citing only one ACRN, multiple CLINs are involved.

In a follow-up report to assess DoD's efforts to resolve its problems in properly matching disbursements with the corresponding obligations, "Status of Defense Efforts to Correct Disbursement Problems," dated October 5, 1994, the GAO reported that DoD had made "some progress in reducing problem disbursement transactions." [Ref. 24:p. 2] The GAO disagreed with DoD's original problem disbursement benchmark of \$19 billion, stating that this figure was "understated," [Ref. 24:p. 2] in part because negative conditions existing within contracts at the obligation level (CLIN or ACRN) were not categorized as NULOs and consequently as problem disbursements. The GAO estimated problem disbursements on June 30, 1994, totalling \$24.8 billion and concurred with only \$5.8 billion of DoD's reported reduction of \$9.7 of its June 30, 1993, \$19 billion

problem disbursement benchmark. The apparent disagreement between the services and the GAO regarding the recognition of NULOs at the fiscal document or obligation level as opposed to the contract level was resolved by Doctor Hamre on December 6, 1994, as follows: "Even if a contract has a positive balance, that does not alleviate the need to obligate amounts to fully fund an obligation, within that contract, that has a negative balance." [Ref. 10:p. 1]

This report, "Status of Defense Efforts to Correct Disbursement Problems," also commented on DoD's long-term solution to its systems problems, referred to as the Corporate Information Management (CIM) initiative, noting that CIM system improvements to date have met with only "limited success" [Ref. 24:p. 12] and that immediate improvements were needed. The GAO recommended compliance with existing guidance and procedural requirements, sustained top-level management commitment, the establishment of a new benchmark for measuring DoD's problem disbursements, and reporting requirements that will allow for the systematic tracking and aging of problem disbursements by senior managers.

### **C. SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS**

The Senate Committee on Governmental Affairs has exercised a leading role in legislative oversight of DoD financial practices and in initiating reform legislation. In testimony before the committee, Doctor Hamre recognized as much; "...this committee has a very distinguished history of bringing the problems to the Department's attention." [Ref. 25:p. 73] The committee has also been at the forefront of legislative reform of financial management within the federal government. Significant legislative actions include the following:

- a. Public Law 101-510 (National Defense Authorization Act for Fiscal Year 1991), commonly referred to as the "M account law," strengthened Congressional oversight and control over expired appropriations.

b. The Federal Managers' Financial Integrity Act of 1982, requires each executive agency to prepare an annual report to the President and the Congress stating whether its internal controls meet the Comptroller General's standards for safeguarding funds, property, and other assets, and listing any material weaknesses and corrective action. The Act also requires a separate report stating whether agency accounting systems conform to the Comptroller General's principles and standards for proper accounting of financial and other resources.

c. The Chief Financial Officers Act of 1990, required the establishment of a Chief Financial Officer within DoD and annual audits of DoD's various revolving and trust funds performing substantial commercial functions. The Act was subsequently amended [Ref. 44:p. 782] to extend the annual audit requirements to all major Federal agencies, including DoD and the military services.

In addition, the Committee was a principal advocate for the establishment of the Defense Business Operations Fund (DBOF), implemented in October 1991 by the Office of the Secretary of Defense. The DBOF consolidated nine existing industrial and stock funds in an effort to focus the attention of management on the total costs of carrying out certain critical DoD business operations.

Perhaps the leading Congressional advocate for reform of DoD financial practices has been Senator John Glenn (D-Ohio). Superseded as Committee Chairman by Republican William V. Roth Jr. (R-Del) with the commencement of 104th Congress, he nonetheless continues to chair hearings on the subject of DoD disbursement problems - a tribute to his long-standing interest and recognized expertise in the subject matter. According to a fellow committee member, Senator Bryon L. Dorgan (D-ND), Senator Glenn "has done more over a longer period of time on these questions than anybody serving in either House of the Congress." [Ref. 26:p. 40]

In committee hearings convened by Senator Glenn in April 1994 to address financial accountability within DoD, the Comptroller General (Charles A. Bowsher) and the Deputy Inspector General, DoD (Derek J. Vander Schaff) were asked to express their opinion on the state of financial management within the Defense Department. Mr. Bowsher responded:

Financial mismanagement problems have been pervasive at the Department of Defense for years. A major overhaul of its financial systems and operations is long overdue. Frankly, I often have been discouraged by DOD's inability to fully recognize the scope and the depth of its financial mismanagement deficiencies. Without such recognition, concerted effort needed to fix those problems has not been forthcoming. [Ref. 13:p. 13]

The DoDIG, Mr. Vander Schaff, attributed disbursement problems within the Defense Department to:

A proliferation of incompatible, parochial systems and non-standard elements [as well as] the wave of fixed-price weapon system development contracts that took place in the early and mid-1980s. That ill-fated experiment gave rise to a long list of troubled acquisition programs whose escape valve, the merged surplus accounts, was rightfully closed by the Congress because of an additional series of miscalculations in the form of inappropriate use of those "M" accounts by the United States Air Force. [Ref. 27:p. 49]

Mr. Vander Schaff also attributed problem disbursements to pressure on finance personnel from the Prompt Payment Act (Public Law 97-177), which requires the Federal Government to pay an invoice within 30 days.

Other Senators have also been vocal in their calls for reform. Senator Charles E. Grassley (R-Iowa) has suggested a freeze on military spending. According to Senator Grassley, "[t]he foundation of the defense budget is built on

sand." [Ref. 14:p. 6] Committee Chairman William V. Roth, Jr. (R-Del) reflects a more moderate, but nonetheless insistent tone. "We've got to put pressure on to expedite [reform]. At best, it will take too long." [Ref. 14:p. 6]

#### **D. MEDIA INTEREST**

The issue of UMDs and NULOs has not escaped the attention of the media. On May 14, 1995, the lead story in the Sunday Washington Post was titled "Losing Control: Defense Department - Billions Go Astray, Often Without a Trace." The article cited over \$15 billion in undistributed disbursements (UMDs) over the past decade and at least \$7 billion in overdrawn government checking accounts (NULOs) for purchases of goods and services since the mid-1980s. These problems, according to the article, were attributable to "lax accounting practices" [Ref. 14:p. 6] by the Defense Department.

In reference to NULOs, the article cited an interview with Deputy DoDIG Derek J. Vander Schaaf, who attributed NULOs to duplicate payments and mispostings of disbursements made. Mr. Vander Schaaf was quoted as saying that approximately \$500 million is paid to defense contractors annually that is not owed to them. According to the Washington Post:

The payment system is in such bad shape that the Pentagon relies on contractors to catch erroneously calculated checks and return them. Many of the overpayments are due to errors made on a paper-based system in which harried clerks are judged by how quickly they make payments. And because there is no adequate way to track the amount of periodic payments made on a contract, businesses often are paid twice for the work they have done. [Ref. 14:p. 6]

The article also reported on the efforts of the DoD Comptroller, Doctor Hamre, over the past eighteen months to implement reforms, most significantly,

threatening to recoup funds from the services' current operating budgets to eliminate NULOs. According to the article:

Doctor Hamre has already opened a number of investigations into whether weapon system program managers committed Antideficiency Act violations (13 U.S.C. 1341) by authorizing payments in excess of funds authorized. In addition, Dr. Hamre has frozen 23 major accounts and stopped payments to 1,200 contractors whose records are particularly troublesome. In July, 1994 payments over \$5 million were not authorized to any contractor unless a valid accounting record of the contract existed in the services' financial accounts and ledgers. [Ref. 14:p. 6]

By October 1994 the \$5 million validation threshold would be reduced to \$1 million.

A related story focussed on the Defense Finance and Accounting Service Center, Columbus, Ohio, "where \$90 billion a year in Defense goods and services - from B-2 bombers to commissary toothpaste - is processed and paid out, mostly by hand, ...as typifying DoD's mismanagement of its accounting records and payment processes." [Ref. 15:p. 6] The story described the center as awash in paper and receipts "strewn across the floor [and an] avalanche of disorganization visible in almost every one of the overcrowded, hot, stuffy offices at the service center." [Ref. 15:p. 6] The article described an apathetic work force who would rather contractors have kept overpayments than return them for fear such action might "affect their performance evaluation." [Ref. 15:p. 6]

#### **E. DEPARTMENT OF DEFENSE**

The Department of Defense policy pronouncement of March 31, 1994, required DFAS to monitor NULO and UMD reduction efforts DoD-wide. On December 31, 1994, restated NULO and UMD baseline numbers for the military departments were, as follows (in \$000,000): [Ref. 48]

SERVICE	NULOs	UMDs
Navy	\$2,841	\$5,187
Marine Corps	536	925
Army	500	1,003
Air Force	1,219	1,444
DoD	<u>271</u>	<u>2,785</u>
Total	\$5,367	\$14,725

**Table 2-1. DoD NULOs, 31 December 1994**

The Department of the Navy as a whole possessed a greater percentage of problem disbursements than the other DoD components. Chief of Naval Operations, Admiral Jeremy M. Boorda, attempted to put the best possible face on the issue by distinguishing between undistributed and improper disbursements in a May 18, 1995 interview with the Washington Post. "I know as they resolve these, most of them are legitimate, proper, bill-paying things." [Ref. 16:p. 23] Responding to previous Washington Post articles describing service indifference and bureaucratic resistance, Admiral Boorda said, "[y]ou find me the entrenched person...and we'll do something about it." [Ref. 16:p. 23]

On October 7, 1994, the Deputy Secretary of Defense, John Deutsch, congratulated service secretaries for reducing unmatched disbursements by almost 50% since June 1993. He went on further to say that "in the process of achieving this goal, other types of disbursements that need correction have been identified. For example, negative unliquidated obligations, undistributed disbursements and in-transit disbursements have been identified and are now being monitored and corrected." [Ref. 7] The statement seemed to confirm what was reported in the GAO's follow-up report, "Status of Defense Efforts to Correct Disbursement



Problems," that some confusion existed within the services regarding what constituted problem disbursements. [Ref. 24:p. 7] Mr. Deutsch concluded by categorizing problem disbursements and assigning specific reduction goals to each: unmatched disbursements, negative unliquidated obligations, and in-transit disbursement in excess of 60 days.

On November 18, 1994, in a memorandum to the secretaries of the military departments, Dr. Hamre acknowledged that the practice of validating disbursements "solely based on hard copy documentation [and without] prior validation to obligations recorded in the official accounting records" [Ref. 8] had contributed to the problem of UMDs and NULOs. "Effective July 1, 1995 each proposed disbursement exceeding \$5 million must be validated against the obligation in the official accounting record/system prior to disbursement." [Ref. 8] He further advised that on October 1, 1995, the threshold for validation against the detail records would become \$1 million. "The validation process must determine, prior to disbursement, that each line of accounting to be charged represents a valid obligation, and that the associated unliquidated obligation balance is equal to, or greater than, the proposed disbursement amount." [Ref. 8] Dr. Hamre recognized the additional steps such measures would require, but the "Department must take such preventative actions to help resolve the very serious problems of unmatched disbursements and negative unliquidated obligations." [Ref. 8] Dr. Hamre advised the service secretaries that these requirements would be enacted into legislation. Additionally, by February 1, 1995, DFAS was to have developed a DoD-wide plan of action, with milestones, for complying with this guidance, to include procedures addressing disbursements below \$1 million. Manual procedures were to be implemented until full implementation of an automated capability.

The basis of Dr. Hamre's memorandum was passage two months earlier, August 11, 1994, of amendment number 2510 to the Fiscal Year 1995 DoD Appropriations Act, "The Grassley Amendment," requiring:

The Secretary of Defense shall develop a plan for establishing and implementing a requirement for disbursing officials of the Department of Defense to match disbursements to particular obligations before making the disbursement. The Secretary shall transmit the plan to Congress not later than March 1, 1995. [Ref. 49]

The amendment called for an orderly and phased approach for the requirement to match disbursements with obligations. The amendment required DoD to match all disbursements over \$5M by July 1, 1995, lowering the threshold to \$1M matched by October 1, 1995, required an independent assessment of the plan by the DoDIG, prohibited DoD from breaking down disbursements to evade thresholds, authorized waivers during a declared war or national emergency or for the support of deployed troops, and granted DoD the authority to lower the assigned thresholds. The amendment was a compromise agreement between Senator Grassley and Senator Daniel K. Inouye (D-HI), then chairman of the Defense Appropriations Subcommittee. Senator Grassley had called for a more drastic, one-step approach to include termination of the DFAS Director's (Mr. Springett) salary effective December 31, 1994, if improvements had not been noted.

On December 6, 1994, Dr. Hamre again reiterated requirements set forth in his memorandum of March 31, 1994, requiring the elimination of NULOs occurring at the appropriation level (Condition 1), the Fund Holder level (Condition 2), and the obligational level (Condition 3). The purpose of this memorandum was twofold, he stated. First, it was "to clarify the need to fund negative unliquidated obligations at the obligation level." [Ref. 9] Second, it encouraged "addressees to

emphasize the importance of resolving negative unliquidated obligations in a timely manner, in order to avoid the need for additional funds." [Ref. 9] Specifically, the memorandum addressed the issue of multiple document numbers/obligations underlying a contract. Must additional funds be obligated for specific document numbers cited in a contract that are over obligated/over-disbursed if the overall contract threshold had not been exceeded? His response, as stated earlier, was an unequivocal yes.

In this memorandum, Dr. Hamre was also mindful that the 180-day suspense period requiring Fund Holders to obligate additional funds to cover \$6 billion of Condition 3 NULOs on the books as of October 1, 1994, was soon to expire. He urged officials at all levels to work assiduously to resolve such conditions "in a timely manner in order to limit the impact on FY 1995 programs." [Ref. 9]

In separate correspondence to the Secretary of the Navy on the same date, Dr. Hamre advised the Secretary of the "enormous effort on the part of your acquisition and contracting communities to avoid having to withdraw considerable funds from your accounts [and urged the Secretary to make this issue a] high priority." [Ref. 10]

On March 29, 1995, Dr. Hamre summarized efforts to date to eliminate negative unliquidated obligations and unmatched disbursements but admitted that NULOs and UMDs were still being generated at an "unacceptable level." [Ref. 11] He acknowledged that over the past few months clearing "older UMDs and NULOs, particularly in the expired and canceled accounts, has been even more difficult than anticipated." [Ref. 11] He went on to defer, from April 1, until June 1, 1995, the requirement to obligate additional funds to eliminate obligation level (Condition 3) NULOs and UMDs that were over 180 days old.

On May 5, 1995, Dr. Hamre, again acknowledging difficulties associated with researching aged transactions, suspended additional research for certain categories of transactions.

I am suspending, on a one-time basis, the requirement to research certain old transactions. These include transactions relating to contracts that have been audited and closed, and for which no outstanding claim exists; transactions for which record retention period has expired, and, therefore, supporting documents are unlikely to be available; and certain other instances in which it may not be cost-effective for the Department to continue research efforts. [Ref. 12]

The cost effective threshold was established at purchases of less than \$25,000. The basis for Doctor Hamre's decision was the cost-effectiveness of continuing to invest "work-years and substantial appropriated funds [into reconciling transactions many of which] may not be resolvable." [Ref. 12]

The decision was carried on the front page of the Friday May 19, 1995, Washington Post. Doctor Hamre was quoted as follows: "I was faced with a choice, ...should I spend large sums of money and devote a substantial amount of time researching these old files, or should I devote our limited resources and personnel to fixing the underlying problems with out finance and accounting systems?" [Ref. 16:p. 1] The article also referred to Doctor Hamre's previous decision of March 31, 1995, to suspend until June 1 the requirement to obligate funds to eliminate NULOs and UMDs over 180 days old, as the deadline had caused "a stir among contractors who fear[ed] their payments will be held up, and among military officials who historically have paid little attention to how the money is spent once they convince Congress to give it to them." [Ref. 16:p. 1] Senator Glenn, in responding to Doctor Hamre's decision, was quoted as saying,

"It really galls me that we would not be able to get these things straightened out, but I don't know what else he could do." [Ref. 16:p. 23]

On June 30, 1995, Doctor Hamre again deferred, issuing a "provisional modification" [Ref. 29] to his original guidance, requiring DoD components to post obligations for only those unmatched disbursements/negative unliquidated obligations in appropriations canceled before September 30, 1994, or due to close (cancel) on September 30, 1995. The policy requiring the obligation of additional funds to eliminate UMDs and NULOs in active appropriations was required for only those transactions occurring since March 31, 1994. For UMDs and NULOs in active appropriations occurring before March 31, 1994, the provisional modification required each DoD component to provide a plan, by September 30, 1995, to resolve, by October 1, 1996, problem disbursements that were made on or prior to March 31, 1994. The basis for this decision, according to Doctor Hamre, was "substantial numbers of problem disbursements existing on the [Navy] books [and his reluctance to] throw the entire Navy acquisition system into chaos at once." [Ref. 29]

#### **F. DEPARTMENT OF THE NAVY**

Department of Navy implementing guidance was released on March 2, 1995, under the subject line, "Responsibilities And Procedures For Resolving Negative Problem Disbursements." The guidance summarized DoD requirements for the elimination of negative conditions and addressed DoN and DFAS roles and responsibilities concerning NULOs. By condition class, the following instructions were effective for both Navy and Marine Corps Fund Holders. [Ref. 30:pp. 2-8]

Violation of Condition 1 NULO is a potential Antideficiency Act violation necessitating an immediate suspension of payments citing the appropriation for which a Condition 1 situation applies. If, as a result of research and review, the condition is corrected, DFAS will notify the Treasury disbursing network to resume

payments against the appropriation. If after 120 days the condition still exists, Navy Comptroller (NAVCOMPT) will begin actions to determine responsible Fund Holders and direct them to file an Antideficiency Act violation in accordance with the NAVCOMPT Manual, paragraphs 032010-032011. NAVCOMPT will also take action to reprogram funds or initiate a request for a deficiency appropriation. DFAS will resume payments against the appropriation when additional funding is available and obligated.

Condition 2 NULOs will be identified by DFAS during the preparation of monthly accounting reports. DFAS will immediately advise the Fund Holder, the major claimant NULO coordinator, and NAVCOMPT and commence research efforts to determine the cause of the condition. If DFAS can identify the responsible Fund Holder, they will immediately inform them of the requirement to reserve funds equal to the excess disbursements until the condition is resolved. If after 120 days of research the situation is uncorrected, the responsible Fund Holder will be required to obligate funds to eliminate the negative condition within 5 days.

Condition 3 NULOs will be reported monthly to each Fund Holder. This monthly notification report is to identify, at a minimum, the following information by document number: appropriation, fiscal year, subhead, bureau control number, document number, ACRN, date of last payment, last payment amount, obligation amount, and disbursement amount. Upon receipt, Fund Holders/administrators would begin research to determine the cause of each Condition 3 NULO. The monthly NULO notification report would highlight all Condition 3 NULOs that are 4 months old or older in order to alert fund administrators of the requirement to either resolve the NULO through review and research before the 6 month time limit or automatically remove the NULO by obligating the difference between the disbursement and the posted obligation. If after 6 months, the Condition 3 NULO

still exists, the fund administrator would have to obligate funds immediately to cover the over-disbursement.

#### **G. UNITED STATES MARINE CORPS**

A concurrent financial management issue receiving much attention during this same time period was the completion on June 17, 1994, of the Naval Audit Service report "Validity of Selected Unliquidated O&M, Marine Corps Obligations," report number (050-W-94). Unliquidated obligations, as distinct from negative unliquidated obligations, are obligations unfinalized or only partially so. The audit report reviewed the validity of unliquidated obligations (ULOs) for material and services recorded in the O&M appropriation during the fiscal years 1989 through 1993. The audit report reviewed in detail \$580.4 million in ULOs, of which \$189.3 or 33% was classified as invalid. The report concluded that 13% of the invalid obligations related to incorrect payment postings, such as, identifying the wrong document number on the payment voucher or charging the entire payment amount on contracts citing multiple fiscal document numbers to a single document number. In the first scenario the recorded obligation was, in fact, a completed transaction by virtue of an unmatched disbursement. In the second, however, the fund administrator obligated additional funds to eliminate an apparent NULO condition, which itself was in error. The audit results seemed to suggest that, to some extent, invalid ULOs and NULO conditions might be offsetting errors due to problems identifying disbursements with recorded obligations.

The audit report brought about a series of corrective actions designed to reduce what was then termed an "unacceptable level of invalid unliquidated obligations" [Ref. 3] by the Commandant of the Marine Corps. The report recommended increased emphasis on unliquidated obligation review. Headquarters, Marine Corps issued guidance during February 1994 for more frequent reviews of ULOs. In fact, unliquidated obligations decreased markedly during the period June

30, 1993, through May 31, 1994. In a follow-up visit to the 41 activities comprising the original audit, total ULOs decreased by almost 60%. [Ref. 31:p. 2]

To develop a course of action to address the issue of invalid ULOs, NULOs, and UMDs the Marine Corps convened a ULO/NULO/UMD Working Group over the period January 18-21, 1995 at Quantico, Virginia to discuss these issues and to develop solutions. Thirty-five financial managers representing a cross section of Marine Corps commands developed 70 recommendations in three broad areas (personnel, training, and systems), priority-ranked as either priority 1, 2, or 3 issues. Included as priority 1 issues were MOS (Military Occupational Skill) staffing of the financial management community, restoration of the accounting warrant officer MOS which had previously been eliminated, and fund administrator staffing and training. Under the category of fund administrator staffing, the Working Group recommended the following: [Ref. 4]

1. Marine Corps Order P7300.20, Standard Accounting, Budgeting, and Reporting System (SABRS) Financial Procedure Manual dated 9 January, 1995, be released to field comptrollers via electronic mail by February 10, 1995.
2. Stability of fund administrator billet assignments.
3. The development of annual training plans (initial, developmental, and advanced) for all financial management Military Occupational Specialties (MOS) and fund administrators.
4. Fund administrator assignments consider such factors as grade, experience, account dollar value, and be at least 18 months whenever feasible.

Under the category of fund administrator training, the Working Group recommended distribution of the Fund Administrator Training Course, fund



administrator access to financial/supply reports and SABRS' Users Manuals, and timeliness in posting financial transactions.

The ULO/NULO/UMD Working Group also reported on the lack of SABRS management reports identifying NULOs. In fact, a SABRS report had only recently been developed by DFAS-Kansas City Center detailing and aging NULOs by Operating/Sub-Operating Budget and fund administrator. It was titled the Negative Unliquidated Obligation Report (M118) and has since become the principal report for identifying NULOs. Prior to development of the M118, the only SABRS management report detailing the status of unliquidated obligations was the Unliquidated Obligations Status Report (M150), a report which does not list negative balances.

On February 23, 1995, the Commandant advised all Marine Corps units that, effective immediately, Defense Accounting Offices would not process for payment public voucher documents without a standard document number and associated ACRN or MILSTRIP Document Number. The message further advised that this information was now required when entering payment information into MCERRS. Although the standard document number could be used in MCERRS to access a SABRS record, if an accounting record of the transaction did not exist reinput of the standard document number had not previously been required.

On March 8, 1995, the Commandant reiterated DoD requirements regarding the correction of UMDs and NULOs by April 1, 1995. Total NULO and UMD balances for forty Operating Budget Holders, defined as the "Field Level NULO/UMD October Baseline," were published. Commands were advised to take "immediate action to reduce NULOs and UMDs" [Ref. 19] prior to the impending requirement to obligate funds to eliminate the negative conditions. Commands were further advised that, in total, the Marine Corps would be required to obligate

funds in excess of obligational authority on April 1, 1995, unless a significant reduction in NULOs and UMDs was forthcoming.

Two days later, the Commandant reiterated requirements for the elimination of NULOs/UMDs after 180 days of research had expired without corrective action. "Unless immediate action is taken to begin reducing the Marine Corps existing NULO/UMD baseline of approximately \$1.4 billion, the amount of NULOs/UMDs required to be obligated will result in an overobligation of available authorizations and an apparent violation of the Antideficiency Act." [Ref. 18] Detailed guidance and instructions were provided to address instances where "applicable source documents are not available or sufficient information for research and correction cannot be obtained." [Ref. 18] In an effort to clear unmatched disbursements, Fund Holders were advised to reconcile all unmatched disbursements listed on the Disbursement Notification Record (DNR) Undistributed Disbursements Report (E130) with the Unliquidated Orders Status Report (M150) to see if any of the payments could be posted by "simple correction to the document number field or other data elements recorded in error." [Ref. 18]

Regarding NULOs, commands were advised to verify the obligation against original source documents. Payment data resident on the DNR transaction history file was to be reviewed to ensure only valid DNRs were posted to the obligation record. If these efforts fail to disclose an error and the balance billed is consistent with the quantity received, an obligation adjustment "should be made to cover any amounts validated." [Ref. 18]

On March 30, 1995, two days before the implementing date requiring fund authorization holders to obligate additional funds, if necessary, to eliminate negative conditions, Headquarters, Marine Corps advised Commands not to "obligate unresolved NULO/UMD on 1 April 95 for the sole purpose of complying with the 180 day obligation policy" [Ref. 20] but wait for further guidance. On

March 31, 1995, the Secretary of the Navy issued an All Navy message (ALNAV) which reported that the Under Secretary of Defense (Comptroller) had deferred posting of obligations for NULOs and UMDs that were over 180 days old until June 1, 1995. Navy and Marine Corps commands were advised to "continue to work aggressively to clear up NULOs and UMDs in order to minimize the disruption to ongoing programs when obligations must be posted on 1 June 95." [Ref. 21]

On May 17, 1995, Headquarters, Marine Corps again advised commands of the requirement, now extended to June 1, 1995, to obligate funds to eliminate NULOs/UMDs if 180 days had expired and no corrective action had been taken to correct the out-of-balance condition. Headquarters further advised commands:

A review of the NULO/UMD balances in excess of 180 days and the status of available obligation authority to cover obligations per DoD policy is insufficient to cover amounts required to be obligated. In the time remaining before policy implementation, it is imperative that out corrective actions be concentrated on those transactions past or approaching the 180 day mark. [Ref. 22]

On August 4, 1995, Headquarters, Marine Corps released additional guidance concerning what constitutes sufficient documentation for recording obligations for the purpose of eliminating NULOs and UMDs. Commands were advised that written memorandums from Fund Holders with information identifying applicable NULO/UMD transactions attached would constitute adequate documentation for the purpose of establishing official obligations. Commands were further advised of the suspension of research efforts for the three classes of problem disbursements announced by Dr. Hamre on May 5, 1995 [Ref. 23] - research efforts relative to NULO/UMD disbursements charged to an appropriation that was

canceled or expired before March 31, 1994, and for which one of the three conditions applied:

1. Transactions involving contracts that had been audited and closed before March 31, 1995, and for which no outstanding claims exist.
2. Transactions for which final disbursements occurred before January 31, 1989.
3. Transactions falling within the small purchase threshold of \$25,000.

For the three categories of NULOs, delineated in Doctor Hamre's provisional modification of June 30, 1995, Headquarters, Marine Corps advised Commands that the Marine Corps had no UMDs or NULOs in appropriations closed prior to September 30, 1994. Regarding appropriations due to close on September 30, 1995, (Fiscal Year 1990 O&M, and Fiscal Year 1988 Procurement, Marine Corps) and UMDs and NULOs occurring since April 1, 1994, commands were advised that Headquarters would input summary level adjustments for UMDs and NULOs occurring since April 1, 1994 and meeting the 180 day criteria without correction. These summary level adjustments would be reversed the following month.

Supporting Defense Accounting Offices were instructed to provide memorandums to Fund Holders, identifying transactions over 120 days old requiring research and correction prior to becoming 180 days old and requiring obligation. The Defense Accounting Office memorandum was also to identify transactions over 180 days old for which an obligation adjustment is required. Fund Holders were instructed to endorse and return the memorandum notice, with documentary support, to the Defense Accounting Office advising of obligation adjustments recorded.

To highlight obligation adjustments in the accounting records for reporting purposes, Fund Holders were advised to use specific coding, as follows:

1. Budget Reporting Code (BRC) of "U": Type 1, research efforts suspended.
2. BRC of "U": Type 2, research continuing.
3. Cost Account Code: 1C40
4. Activity Group/Subactivity Group: BABS
5. Object Class: 2500

Fund Holders were again advised to adopt "procedures to match unliquidated obligations that have been expended with unmatched disbursements...to the maximum extent possible before obligating new funds." [Ref. 23] Fund Holders were further advised not to "impact current programs by obligating NULO/UMDs that are not valid obligations. Should funded programs be in jeopardy, an impact statement requesting a waiver from the obligation requirement should be submitted to Assistant Secretary of the Navy." [Ref. 23]



### **III. ACCOUNTING OVERVIEW**

This chapter is an overview of the accounting function within the Department of Defense, with specific emphasis on the DoN and the USMC. It begins with the accounting transaction model, built around cash based accounting methods, in effect at the conclusion of World War II and traces the evolution of DoD accounting systems to the present day. It addresses how the transition within DoD to the accrual basis of accounting would entail major changes in transaction processing. It highlights how this shift in accounting policy, an overly long accounting classification code of nine coding elements, and "non-uniform financial management systems" [Ref. 25:p. 83] have affected transaction processing within DoD. It focuses on the major accounting reform initiatives, undertaken over the last twenty years, that have attempted to improve transaction processing and reduce the persistent problem of unmatched disbursements. It highlights the shift within the Marine Corps from a centralized accounting system to a decentralized system, SABRS, and how this shift would entail a major transfer of accounting responsibilities to the fund administrator - the lowest level at which funds are accounted for within the Marine Corps. It discusses how this major change would parallel an increase in NULOs.

A functional analysis of the organizations - accounting, disbursing, and contracting - comprising the accounting processing model is also provided. Understanding the roles of each of these activities will lay the groundwork for a more detailed analysis of the specific causes of NULOs to be addressed in Chapter IV.

#### **A. HISTORICAL OVERVIEW**

The development of disparate disbursement and accounting processes is attributable to the tremendous growth of the Defense Department and the need to

expedite payments to war contractors during World War II. Payments preceded the accounting process of recording, summarizing, and classifying financial transactions. As Fund Holders/administrators purchased goods and services, the purchase (source) document was sent to the fund administrator's Authorized Accounting Activity (AAA) to be recorded as an obligation in the official accounting records. After receipt of the goods or service, the certified invoice was mailed to the Marine Corps Finance Center, a Naval Regional Finance Center, or local disbursing office for payment. Designation of the Marine Corps Finance Center or Naval Regional Finance Center as central payment sites relieved disbursing officers of this responsibility and expedited payment of vendors' bills. After payment, the paid voucher was forwarded to the fund administrator's AAA to record the liquidation of the obligation.

The decentralized financial management structure, described above, was an outgrowth of World War II and the need to quickly mobilize the nation's resources in a time of war. According to the Comptroller General,

It was not possible with pre-World War II technology to maintain centralized control over rapidly expanding government activities during this period of national crisis. The decentralized systems approach to financial management taken during this crisis period has now become part of the tradition and heritage of financial management of the federal government. [Ref. 33:p. 6]

The accounting system described provided information relative to obligations only; for this reason it is commonly referred to as "obligational accounting." [Ref. 34:p. D-59] It recorded neither the obligation at the time in which it occurred nor possessed a means of recognizing expenses for resources consumed. Efforts to correct these deficiencies would serve to mark many of the accounting reform measures undertaken in the post-World War II era. Unfortunately, these efforts



would bring with them unintended consequences, largely in terms of undistributed disbursements. It should be noted, however, that this cash based accounting system, by recognizing financial transactions at the point of payment, despite its obvious weaknesses in terms of fund control, effectively prevented UMDs and NULOs. Recording obligations at the very end of the transaction processing cycle reduced the possibility of error by recording financial transactions, obligation and liquidation, at that point in time when virtually everything about the transaction was known.

#### **B. BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950**

The first significant post-World War II legislation addressing governmental accounting issues was the Budget and Accounting Procedures Act of 1950. The Act grew out of work conducted by the Commission on Organization of the Executive Branch, or Hoover Commission (named after its chairman, former President Herbert Hoover). In addition to recommendations addressing executive agency reorganization, the commission also recommended the U.S. Government adopt performance budgeting and simplified accounting processes to include accrual based accounting.

The Act placed responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. The Act granted to the Comptroller General the authority to "prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency." [Ref. 35:p. 835] The General Accounting Office was tasked to "cooperate with the executive agencies in the development of their accounting systems [requiring] that accounting systems be approved by the Comptroller General when deemed by him to be adequate and in conformity with the principles, standards, and related requirements prescribed by him." [Ref. 35:p. 835] The requirements of the Act had the effect of "institutionalizing the

decentralized financial management structure that grew out of World War II." [Ref. 33:p. 7]

A second Hoover Commission (1953-1955) was convened to again review budget and accounting processes of the federal government which, in the opinion of the commission members, still lacked central direction. The second Hoover Commission, whose chairman was a certified public accountant and former head of the American Institute of Accountants [Ref. 43:p. 50], reemphasized the importance of the federal government adopting the accrual basis of accounting to better measure the cost of government operations. The commission's report recommended that "[g]overnment accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities and the costs of operations." [Ref. 36:p. 3-3] With strong support in the Congress, the Budget and Accounting Procedures Act of 1950 was amended in 1956 [Ref. 44:p. 782] to require the federal government to adopt the accrual basis of accounting.

Conforming with the original requirements of the Budget and Accounting Procedures Act of 1950, requiring the General Accounting Office to promulgate "accounting principles, standards, and related requirements" for the U.S. Government, the Policy and Procedures Manual for Guidance of Federal Agencies was published in 1953. In reference to accrual accounting, the manual states, "the accrual basis of accounting is the prescribed basis of accounting to be used by federal agencies." [Ref. 37:p. 3-3]

### **C. ADOPTION OF ACCRUAL BASED ACCOUNTING - PROJECT PRIME**

In an effort to implement the recommendations of the Hoover Commissions and the legislation that followed, DoD implemented a total resource approach to management, known as the Resource Management System (RMS). Those efforts under RMS dealing with programming, budgeting, and accounting systems were

titled Project PRIME, to underscore the **PRI**ority **M**anagement **E**ffort required to complete the task. Project PRIME implemented the accrual, or accrued expense basis of accounting for DoD's operations and maintenance appropriations. The Marine Corps accounting system developed during the 1960's to implement Project PRIME was given the same name, PRIME.

Strict fund control requirements, notably the Antideficiency Act (31 U.S.C. 1512-1519), required the recognition of obligations at the point in time at which obligations were entered into instead of at the point of payment. The adoption of accrual accounting methods required recognition of financial transactions at that point in time when goods or services were consumed in use. The transaction processing cycle that would satisfy the twin objectives of fund control (obligational accounting) and total cost visibility (accrual accounting) required the sequential processing of ordering, receipt, payment, and consumption transactions through budgetary accounts monitoring fund accountability into proprietary accounts of a purely financial nature. A DoD Uniform Chart of Accounts (UGLA) was published in the early 1980s incorporating a self-balancing set of budgetary and proprietary accounts. The UGLA would form the basis for development of the SABRS General Ledger Subsystem.

The organizational accounting model which was to become standard within DoN in the post-World War period was based upon a centralization of accounting functions within Authorization Accounting Activities (AAA). The AAAs were independent organizationally from the commands to which they provided Allotment/Suballotment and Operating Budget accounting. AAAs, organizationally "disinterested third part[ies]," [Ref. 34:p. D-67] were responsible for maintaining the official accounting records (legal records) of supported commands. In the case of the Marine Corps, the responsibilities of Fund Holders were limited to (1) forwarding obligation documents weekly to the AAA/Consolidated Fiscal

Accounting Office (CFAO) in the form of Fiscal Document Transmittals, (2) reconciling accounting cycle output with their in-house memorandum files and identifying discrepancies to the CFAO, and (3) monitoring the status of their funds by means of weekly Available Balance Reports to their respective Comptroller offices. All major accounting functions, including authorization amendments, retention of source documents, and preparation and reporting of monthly financial statements (NAVCOMPT 2199), were performed by the AAAs/CFAOs.

On October 18, 1974, after audits by the General Accounting Office revealed major discrepancies and delays in reporting financial information to management, the Secretary of the Navy initiated the Financial Management Improvement Program (FMIP) to coordinate the development of an integrated financial management system. The audit reports cited high numbers of undistributed disbursements as a major problem area and excessive delays in posting obligations and disbursements to the official accounting records. The FMIP initiated several major reform programs designed to improve transaction processing within the DoN. These included (1) the Integrated Disbursing and Accounting Financial Management System (IDAFMS), designed to integrate the disbursing and accounting systems to improve both the accuracy and timeliness of financial reporting, (2) the development of a centralized posting medium (Centralized Expenditure and Reporting System) to expedite the posting of disbursement and collection transactions DoN-wide, (3) the development of a Navy standard document numbering system to standardize the structure and content of identification numbers assigned to financial documents DoN-wide and, (4) a system to allow for the one-time capture of accounting data within the AAA's through the use of Accounting Classification Reference Numbers (ACRN). Matching of disbursements to the proper obligation document would be accomplished by using the standard document number and ACRNs associated with such transactions.

Through the use of automated processes, these initiatives were intended to improve both transaction processing within the DoN and the timeliness with which accounting transactions were updated in the official accounting records. It was in this atmosphere that the Marine Corps began development of an integrated financial management system, SABRS, in 1978. The introduction of SABRS into the Marine Corps eleven years later would bring with it profound changes in terms of organizational roles and responsibilities. SABRS decentralized access to the accounting system down to the fund administrator level, the lowest level at which funds are accounted for within the Marine Corps. Fund administrators would now possess the responsibility for recording financial transactions, monitoring exception reports, correcting errors, and retaining source documents. Although SABRS was maintained on the mainframe, the system was easily accessible through computer networks.

The last major issue that would impact the issue of NULOs within all the military departments was passage of Public Law 101-510, National Defense Authorization Act for Fiscal Year 1991, dated November 5, 1990. Prior to passage of the Act, appropriation accounts maintained their fiscal year identity for two years after the end of the fiscal year. After the 2-year period, obligated but unpaid balances were merged into an "M" account while unobligated budget authority of an appropriation was transferred into an account titled merged surplus authority. These accounts served as repositories for balances of prior years' expired budget authority both for payment ("M" account) and for upward adjustments of previously recorded obligations (merged surplus authority). Large balances in these accounts (\$18.8 billion and \$27.1 billion respectively on September 30, 1990) [Ref. 40:p. 14], DoD's use of these funds to cover upward adjustments to obligations, and audit reports disclosing a high percentage of invalid obligations in the "M" account prompted Congress to strengthen its oversight and control over expired

appropriations. The effect of the Act with respect to NULOs existing at the Operating/Sub-Operating Budget level was to increase both the number and dollar value of NULOs for which Fund Holders would be accountable. At the Headquarters level, access to the merged surplus authority accounts no longer existed as a means of eliminating NULOs existing in the "M" accounts. The Act also reflected, and perhaps foretold, greater Congressional interest in DoD's accounting practices.

#### **D. ACCOUNTING**

Accounting within the Navy and Marine Corps occurs at both the Headquarters and Operating Budget level. Operating Budget Holders are major Marine Corps commands with both legal and command responsibility for funds allotted from Headquarters, Marine Corps (HQMC). At the HQMC or Central Accounting Office level, using the Headquarters Accounting System (HAS), accounts are segregated into Master Control Accounts and Appropriation Cash Accounts. Master Control Accounts are maintained in summary form without regard to appropriation and are designed to show the monetary amount of disbursements, revenue, assets, and liabilities of the Marine Corps. Ultimately, all financial transactions affecting the Marine Corps are summarized in the Master Control Accounts.

Appropriation Cash Accounts are the second major classification into which accounts at the Responsible Office (Headquarters, Marine Corps) are divided. Appropriation Cash Accounts account for the status of cash at the appropriation and subhead level, beginning with the receipt of an appropriation warrant on through to the posting of expenditure notifications, NAVCOMPT Form 634. Appropriation Cash Accounts provide information for the preparation of summary financial reports to the Department of the Treasury and the General Accounting Office.

## E. ACCOUNTING CLASSIFICATION CODE

Accounting data within DoD is transmitted by way of the accounting classification code. The accounting classification code is used to provide a complete and uniform system of accumulating and reporting accounting information. A DoD standard accounting classification coding structure does not yet exist, but one is being developed by DFAS. [Ref. 45:p. 36] In the meantime, the military departments are using their own service-unique coding structures. For the DoN, the accounting classification code consists of a maximum of nine coding elements. The accounting classification code may be preceded by an ACRN, if multiple accounting classification codes are cited on a source document. At the time of its development (1974), the purpose of the ACRN was to allow for single source entry of accounting classification data at the AAAs and reduce keystroke errors that resulted from multiple reentries of long lines of appropriation data at subsequent stages of transaction processing. For example, the AAA/CFAO would capture the long line of appropriation data at the time of reservation. Thereafter, for the obligation, expenditure, and liquidation transaction, the accounting classification data would be retrievable using the MILSTRIP, or standard document number and the ACRN assigned at the time of reservation. ACRNs are assigned sequentially beginning with AA, AB, et cetera.

The Navy/Marine Corps accounting classification code is as follows: [Ref. 42:para. 021004(2)]

1. **Appropriation (7 digits):** The first three digits designate the Responsible Office and the fiscal year of the appropriation. The remaining 4-digits specify the purpose of the funds budgeted for obligation and expenditure, e.g., '1106' specifies Operations and Maintenance, Marine Corps. Appropriations and narrative descriptions are detailed in the Navy Comptroller Manual, Volume 2, Chapter 2.

2. **Subhead (4 digits):** An alphanumeric field for identifying charges and credits to a first-level subdivision of an appropriation. The first two characters designate the administering office and are derived from the last two characters of the major claimant's Unit Identification Code (e.g., HQMC Unit Identification Code is '00027'; therefore, the first two characters of all Subheads administered by HQMC will be '27'). The last two characters are a Purpose Code that is specific to the appropriation under which the subhead falls.
3. **Object Class (3 digits):** Field is zero-filled except for transactions affecting international balance of payments.
4. **Bureau Control Number (5 digits):** A five digit numeric field used to identify the holder of an appropriation or the purpose of an allotment and the specific subdivision of the budget to which the allotted funds will be applied. For appropriations, the Bureau Control Number is synonymous with the operating budget number of the activity holding the appropriation.
5. **Suballotment (1 digit):** Referred to as the operating budget suffix for O&M appropriations. Used only when more than one Resource Authorization (NAVCOMPT 2168-1) is issued to a single UIC under the same subhead. When this data field is not applicable, a zero is inserted to complete the field.
6. **Authorization Accounting Activity (6 digits):** The Unit Identification Code of the Authorization Accounting Activity performing accounting for the Operating Budget Holder.
7. **Transaction Type Code (2 digits):** Identification of transactions is usually accomplished by use of functional accounts, classified according to the end use or purpose. Because functional accounts are not a required element of the accounting classification code, a designator is included to identify purchases for stores accounts, plant property, travel advances, contract progress payments, and other charges.
8. **Property Accounting Activity (6 digits):** When the transaction type code indicates a purchase of plant property, the unit identification code of the activity for which the plant property is purchased will be shown as the property accounting activity. For temporary additional



duty travel of military and civilian employees, the travel order number is inserted in this field.

9. **Cost Code (12 digits):** This data field is for local identification of transactions. It has generally been recommended [Ref. 44:p. 3-11] that commands use the last 12 digits (Activity Address Code, Document Type Code, and serial number) of the standard document number assigned to the source document to allow supporting Defense Accounting Offices (DAO) an alternative means of determining the document number to post undistributed disbursements.

A total of 46 digits comprise the accounting classification code. Excessive data elements have been cited as contributing factors in DoD disbursement problems. [Ref. 41:p. 7] DoD's CIM initiative includes the goal of reducing accounting data elements currently in use. [Ref. 13:p. 85]

**F. THE MARINE CORPS' INTEGRATED FINANCIAL MANAGEMENT SYSTEM: THE STANDARD ACCOUNTING, BUDGETING, AND REPORTING SYSTEM (SABRS)**

SABRS is the Marine Corps' integrated financial management system for management of its Operations & Maintenance appropriation. It will ultimately account for all Marine Corps appropriations. [Ref. 46:pp. 2-3] It was first approved for development in August of 1978, to replace a variety of aging, "stovepiped," and incompatible financial management systems. These included the Priority Management Effort (PRIME) used by the Marine Corps supporting establishment and the Marine Air/Ground Accounting and Reporting System (MAGFARS) used by the Fleet Marine Force. After a series of delays, SABRS was introduced into the Marine Corps during the period October, 1989 through September, 1992.

It is functionally organized into three categories of spending, budgeting, and supporting subsystems. Transaction processing pertaining to a specific function is contained within that subsystem (i.e., all material and services expenditures are

processed in the Material and Services subsystem, all travel expenditures are processed in the Travel subsystem, etc.). The thirteen subsystems, functionally grouped, are as follows:

SPENDING SUBSYSTEM	BUDGETING SUBSYSTEM	SUPPORTING SUBSYSTEM
Travel Material & Services Labor	Budget Execution Budget Formulation	Plant Property General Ledger Reimbursable Expenditures & Collections Facilities Allocations Report Inquiries Table Management

**Table 3-1. SABRS Subsystems**

The Spending Subsystems are considered major subsystems in that it is here that appropriated funds are spent. It is also here that NULOs occur. A brief description of the subsystems relating to the thesis topic are as follows:

1. **Material & Services (M&S).** The M&S subsystem accounts for supply and maintenance transactions, as well as services. The M&S subsystem interfaces with Marine Corps supply activities, SASSY Management Unit and the Direct Support Stock Control to post supply issues. Contracts for goods and services are input into SABRS by either an automated interface with the contract issuing office or directly by the fund administrator on whose behalf the contract has been let. Fund administrators reserve, obligate, and expense transactions in the M&S subsystem. Offices of DFAS, known as Defense Accounting Offices, are responsible for posting liquidations.
2. **Travel.** The Travel subsystem processes and accounts for all funds spent on travel of personnel on temporary additional duty orders (TAD). Users enter basic information for generation of the TAD orders into SABRS, including cost estimates of each subobject class

of travel expense - per diem, transportation, other transportation, and miscellaneous expense. The subsystem automatically reserves and obligates the travel cost estimate and expenses the transaction, in thirty day increments, on the date travel is programmed to commence. The subsystem sequentially assigns Travel Order Numbers (TON) which serve as the reference number for further processing of the transaction.

3. **Labor.** The Labor subsystem records labor obligations and expenses in SABRS, a process referred to as labor distribution. The payroll processing system, Defense Civilian Pay System (DCPS), generates the dollar obligation and standard document number of the transaction, for both civilian labor and fringe benefits, to match against the Disbursement Notification Record (DNR). This action occurs after the paid payroll is completed and the Payroll Work File is made available for labor distribution. A reconciliation between the distribution and the paid payroll is accomplished biweekly to ensure obligations and expenses are reconciled to the actual paid payroll. Currently, no NULOs are being reported for civilian labor or fringe benefits and further research of this issue does not fall within the scope of this thesis.
4. **Expenditures and Collections (E&C).** The E&C subsystem receives all disbursements, Interdepartmental Bills (IDBs) from Defense Data Network, and DNRs from the Centralized Expenditure and Reimbursement Processing System (CERPS). It edits IDBs and DNRs and sends valid disbursements to the spending subsystems to post as liquidations of recorded obligations, thus completing the transaction processing cycle. The receiving subsystem determines whether or not the disbursement matches an obligation and updates E&C.

A payment becomes undistributed in SABRS if either of the following two conditions apply:

- a. The DNR does not match an active record in any of SABRS' spending subsystems - material & services, travel, or labor.

- b. The transaction matched by document number in one of the spending subsystems but the appropriation data of the DNR did not match the appropriation data of the active record (i.e., Fiscal year, Appropriation, Subhead, Operating Budget, Authorization Accounting Activity).

## G. SABRS TRANSACTION CYCLE

In order to fulfill DoD's accounting objectives and purposes, notably fund control and total cost visibility, SABRS accounts for spending transactions by means of a four step cycle, beginning from the point at which funds are set aside in anticipation of an expenditure through to the actual payment or liquidation of the transaction. These four steps are reservation, obligation, expense, and liquidation. Recording transactions as reservations and obligations provides a basis for maintaining fund control. An expense transaction allows for the recognition of expenses in terms of resources consumed. Definitions of reservation, obligation, expenditure, and liquidation are as follows:

1. **Reservation.** An administrative reduction of a fund administrator's available balance of funds. A reservation sets aside funds for a future purchase of goods or services. Because a reservation is not a legal commitment of funds, the use of reservations is strictly a fund management tool.
2. **Obligation.** A legal commitment of funds occurring when "an order is placed, a contract is awarded, a service is received, orders are issued directing travel, and similar transactions are entered into during a given period of time requiring future payment of money." [Ref. 42:para. 022071(3)] Examples of obligations include contracts, purchase orders, calls on blanket purchase agreements, and imprest fund purchases buys. Obligation amounts may be changed based on legal cancellation of the ordered goods and services or based on price or entitlement adjustments.

3. **Expense.** An expense occurs after goods or services that were previously ordered are received or consumed. Consistent with the accrual method of accounting, the Marine Corps disassociates the recognition of an expense from the actual payment, except for minor purchases where materiality suggests recognizing the expense at the time of purchase vice the point of actual use/consumption.
4. **Liquidation.** Payment of an obligation. This is the final step in the transaction cycle, when a check is drawn against the United States Treasury. Final transactions change the status of records in SABRS from active records to history, provided that all money fields (reservation, obligation, and expense) equal the amount of the payment.

SABRS operates through manual and automated input into a batch update system. Transactions affecting reservations, obligations, and expenses are manually posted or processed through various system interfaces into SABRS. Payments are processed through automated interfaces with either MCERRS or CERPS.

#### **H. USE OF STANDARD DOCUMENT NUMBER**

On March 3, 1976, the DoN issued NAVCOMPT INSTRUCTION 7300.99C, directing the adoption of a standard document numbering system to replace existing, non-uniform numbering systems in use which did not "adequately identify the issuing activity, the type of document involved, or the year of issuance and, in many instances, were duplicated among issuing activities." [Ref. 47:p. 1] The implementing instructions cited difficulties within the AAA's matching obligations to recorded obligations for lack of a uniform document numbering system. The Marine Corps was initially exempt from the requirement, pending the implementation of SABRS which would require standard document numbers for all transactions.

All transaction processing in SABRS requires use of a Standard Document Number. The Standard Document Number is a 15-digit number which uniquely

identifies financial documents, detailing the military department (1 digit), Unit Identification Code (5 digits), Fiscal Year (2 digits), Document Type Code (2 digits), and Serial Number (5 digits). These five elements are further defined below:

1. Department/Service Designator Code: "M" identifies Marine Corps.
2. Unit Identification Code (UIC) of document issuing activity: The UIC is a unique code assigned to identify specific units for supply and billing purposes; "68001" identifies Marine Corps Base, Camp Pendleton.
3. Fiscal Year: Last two digits of the fiscal year in which the basic document was issued; "95" identifies fiscal year 1995.
4. Document Type Code: A two digit code that generally classifies the reason or purpose of the document, as assigned by the Comptroller of the Navy. Commonly cited document type codes include: (TO) - Travel or TAD, (WR) - Order for Work and Services (NAVCOMPT 2275) when issued as a Funded Reimbursable Work Request, (PO) - Order for Work and Services (NAVCOMPT 2275) when issued as a Project Order, (RC) - Request for Contractual Procurement (NAVCOMPT 2276).
5. Serial Number: This 5-digit field is locally assigned to distinguish individual source transactions. Serial numbers cannot be repeated during a fiscal year for the same Activity Address Code (AAC), service designator followed by UIC, and document type code.

Once assigned, the standard document number becomes the key document reference number in SABRS. In order to access the record or update the record for any reason, the standard document number must be known.

## **I. CONTRACTING**

Contracting support on Marine Corps installations is provided through Marine Corps Regional Contracting Offices. Regional Contracting Offices (RCO)

under the supervision of appointed Contracting Officers procure goods and services that are not otherwise available through DoD or General Service Administration supply channels. Fund Holders submit DD Forms 1149, Requisition and Invoice/ Shipping Document, with a general description of the goods or services requested, accounting classification data, and a dollar threshold of funds available to support the requirement to the RCO for contracting action. The Fund Administrator's DD Form 1149 serves as the source document for the establishment of a reservation in SABRS, based upon the estimated cost of the requirement. Accounting classification data is transcribed from the DD Form 1149 to the actual contract, DD Form 1155. Once a contract is issued, a copy is forwarded to the fund administrator for input into SABRS as the obligation and to the Defense Accounting Office designated on the contract as the payment office for establishment of a vendor file. An alternate means of recording contract obligations in SABRS exists by way of an automated interface with the Marine Corps' Base Contracting Automated System (BCAS) and was in effect at MCB, Camp Pendleton during the fiscal years reviewed. Contract amendments are likewise forwarded to the Fund Administrator and the designated payment office to ensure (1) that the updated current contract amount is reflected in SABRS and (2) that payments in excess of the contract amount are not made.

#### **J. BASE CONTRACTING AUTOMATED SYSTEM (BCAS)**

The Marine Corps uses BCAS to automate certain contracting office functions, such as solicitation processing, contracts awards processing, contract modification, and contract administration. As noted above, BCAS incorporates an accounting and finance interface which can be used to post contract obligations in SABRS. This interface is dependent upon the fund administrator having previously established a reservation of the transaction in SABRS, which in itself is required when the DD Form 1149 is submitted to the contracting office. If the

transactions is reserved in SABRS, Document Identifier Code (DIC) "XSR," BCAS will generate the obligation entry, DIC "XSC," when the contract is awarded.

Contract solicitation, placement, award, and administration are all governed by the Defense Federal Acquisition Regulations Supplement (DFARS). The DFARS also defines the structure of contracts based upon the Uniform Contract Line Item Numbering System. This provision requires separate contract line item numbers (CLINs) for items or services to be acquired "unless it is not feasible to do so." [Ref 50:Subpart 204.7103-1(a)] A further subdivision of contracts beyond the CLIN level is achieved by use of subline items numbers (SLINs). "Contract subline items provide flexibility to further identify elements within a contract line item for the purpose of tracking performance or simplifying administration." [Ref 50:Subpart 204.7104-1] For the purpose of achieving greater specificity, contracts are decomposed into CLINs and SLINs. As was noted in Chapter II, the existence of CLINS, SLINs, and ACRNs adds greatly to the fiscal complexity of contracts and are associated with UMDs and NULOs.

## **K. DISBURSING**

Although Marine Corps Operating and Sub-Operating Budget Holders reserve and obligate funds, separate accounting offices of the Defense Finance and Accounting Service disburse those funds. DFAS was established in January 1991 as a result of Defense Management Review Decision 910, requiring the consolidation of finance and accounting functions of the separate DoD components. Disbursements are generally categorized as either disbursements of pay and allowances, for which the Military Pay Rolls (MPL) serve as the disbursement voucher or as payment for goods or services, for which "public vouchers" serve as the disbursement voucher. Public vouchers are the authoritative document used by U.S. Government agencies to justify payment for purchases of equipment, material and supplies, and services other than personnel. Disbursement vouchers serve as



the source documents for the liquidation of obligations. Disbursing officers can make any category of payment, (1) partial, (2) complete, (3) final, (4) progress, or (5) advance payments when a public voucher is correctly prepared, properly signed, and supported by all necessary substantiating documents. A public voucher is correctly prepared when it meets the following conditions: [Ref. 52:p. 219]

1. The payment discharges a legal liability of the U.S. Government.
2. The written evidence assembled in support of the payment is complete.
3. The voucher is charged to an appropriation or fund available for payment.
4. The control over disposition of the public voucher (original and copies) and the maintenance of permanent records is such that there exists no possibility of duplicate payment and/or overpayment by the Government.
5. The accounting data are accurate and complete so that proper abstraction and adjustment of appropriations and/or funds may be accomplished.

The common forms of public vouchers used by the Navy/Marine Corps are the Voucher for Disbursement and/or Collection (NAVCOMPT Form 2277) and the DD Form 1155. Contracts and orders specify the activity to which the vendor is to submit bills and the activity which will make payment. The activity designated in the contract to make payment is responsible for preparing the public voucher. In the case of vouchers prepared by a disbursing officer, certification evidences that articles or services purchased have been received and accepted, that extensions and totals are correct arithmetically, that unit prices are correct, and that the voucher is proper for payment in all respects. Until Doctor Hamre's

pronouncement of November 18, 1994, [Ref. 8] requiring validation of proposed disbursements exceeding \$5M with the unliquidated, official accounting record entry of the obligation, certification did not require verification of fund availability. Fund Holders were required to certify the availability of funds at the request for procurement action stage, DD Form 1149, but not thereafter.

**L. MARINE CORPS EXPENDITURE REIMBURSEMENT REPORTING SYSTEM (MCERRS)**

The Marine Corps Expenditure Reimbursement Reporting System automates disbursing office functions at Defense Accounting Offices supporting Marine Corps activities. MCERRS is a Marine Corps unique system developed prior to the capitalization of DFAS and still in use pending the establishment of DoD standard operating systems. The purpose of the reporting system is twofold, (1) to report disbursing officers' accountability to the U.S. Treasury and (2) to prepare and report consolidated financial returns. Through MCERRS, net outlays are reported on a daily and monthly basis to DFAS-Washington Center, HQMC, and to the AAAs supporting activities on whose behalf cash transactions (disbursements and collections) have been processed.

In order to record an expenditure in MCERRS the following data elements must be recorded:

1. Disbursement Notification Record Document Number: 14-15 digits.
2. Disbursing Station Symbol Number: 4 digits.
3. Disbursing Officer Voucher Number: 4 digits.
4. Register Number: 2 digits.
5. Accounting Classification Reference Number: 2 digits.
6. Appropriation Number: 7 digits.

7. Subhead: 4 digits.
8. Object Class/Subobject Class: 4 digits.
9. Operating Budget: 6 digits.
10. Suballotment: 1 digit.
11. Authorization Accounting Activity Number: 6 digits.
12. Transaction Type Code: 1 digit.
13. Property Accounting Activity Number: 6 digits.
14. Cost Code: 12 digits.
15. Report Month: 2 digits.
16. Register Month: 2 digits.
17. Financial Information Processing Center Code: 2.
18. Class Code: 1 digit.
19. Quantity Paid.
20. Amount Paid.

If SABRS is loaded to the mainframe computer supporting the disbursing officer's operations, then only the voucher number, SABRS document number, and ACRN is required, as MCERRS will then be able to retrieve the accounting data from the SABRS database. If not, reinput of the data is required. According to disbursing personnel at the DAO, Camp Pendleton, prior to the requirement to prevalidate disbursements to the detail obligation and during many of the fiscal years encompassing the data sample (FY89-95), in approximately 50% of the instances reinput of the accounting classification code was required.

## **M. DISBURSEMENT REPORTING REQUIREMENTS**

All paying officers of the uniformed services, acting as agents of the U.S. Treasury, are required to submit monthly Statements of Accountability (Standard Form 1219) to the U.S. Treasury, detailing all disbursements, collections, and cash on hand. Disbursing Officers' financial returns make up the formal accounting to the United States for all public funds received and spent. Financial returns also fulfill an important administrative accounting control requirement.

For disbursing symbols assigned by the U.S. Treasury to Marine Corps activities, MCERRS summarizes cash transactions into a consolidated Statement of Transactions (DD Form 1329). The total net disbursements reported on the DD Form 1329 is reconciled to total net disbursements reported on DoN's consolidated Statement of Accountability (Standard Form 1219). The consolidated Statement of Transactions (DD Form 1329) is likewise reconciled with control totals resident within the Centralized Expenditure/Reimbursement Processing System (CERPS). The DD Form 1329 ultimately serves as the posting medium for recording cash disbursements in the Master Control Ledger maintained at HQMC and the DoN.

The monthly consolidated DD Form 1329 is submitted to the Department of the Treasury for the preparation of government-wide financial statements. A copy is also submitted to the General Accounting Office and to other agencies if cash transactions (collections or disbursements) cite appropriations chargeable to them. These checks and balances cited above provides for detailed accountability of all cash transactions occurring within the DoN.

## **N. ASSEMBLY/TRANSMITTAL OF FINANCIAL RETURNS**

Copies of each public voucher paid during the reporting period with supporting documentation will be forwarded with the Disbursing Officers financial returns. A copy is retained by the disbursing Officer and a copy is forwarded to the Bureau Control Number (Operating Budget Holder) on a weekly basis with a

Listing of Expenditures/Collections (NAVCOMPT Form 634) to the AAA/CFAO /DAO providing accounting services for the Operating Budget Holder. AAAs are officially charged with all transactions reported on summary NAVCOMPT Forms 634. Expenditures which cannot be posted to an official accounting record obligation are captured on the Operating Budget Holder's general ledger as an undistributed disbursement, account 10150.

#### **O. TRANSACTION PROCESSING CYCLE UNDER SABRS**

The transaction processing cycle in use under SABRS is summarized as follows:

Fund administrators initiate requirements for materials or services. Obligations are established in the official accounting records through either automated interfaces with other financial/supply subsystems, such as the Defense Civilian Pay System (DCPS) in the case of civilian pay, the Direct Support Stock Control or SASSY Management Unit (centralized supply support) for material requisitions, BCAS for contracts issued through Regional Contracting Offices, or by direct interface with order writing systems for Permanent Change of Station and Temporary Additional Duty Travel. Obligations recorded in the accounting system cite an accounting classification codes of 9 digits to allow classification of the obligations and expense, and a document number with which to administratively track the transactions.

At a later date, in the case of material and services, the fund administrator receives the item/service and an invoice from the supplier. The fund administrator ensures all purchase requirements are met and then (1) expenses the transaction in SABRS (thereby recognizing the accounts payable) and (2) forwards the certified bill for payment to the Defense Accounting Office specified on the purchase request as the office responsible for making payment. If the payment is chargeable to multiple standard document numbers or ACRNs, the fund administrator must

also specify the document numbers or ACRNS to be charged. As disbursements are made, accounting data identifying the disbursement is input into MCERRS/CERPS. If the document number of the disbursement matches an official obligation recorded in SABRS and the appropriation data matches (i.e., fiscal year, appropriation, subhead, operating budget, AAA), the disbursement will automatically post against, or liquidate, the recorded obligation. Disbursements failing this criteria are captured as undistributed disbursements, still chargeable to the Operating Budget Holder but not to a specific obligation. When the dollar value of liquidations exceed the dollar value of the recorded obligation, a NULO condition is created.

Chapter IV will examine a sample of 65 NULOs to determine critical weaknesses in the transaction processing cycle responsible for NULOs.

#### IV. DATA ANALYSIS

Chapter III addressed two significant accounting changes occurring within the Marine Corps over the last twenty-five years which have impacted transaction processing and contributed to NULOs. Restated here, they are as follows: (1) that the adoption of accrual based accounting methods resulted in an increase in unmatched disbursements and, to the extent that disbursement problems underlay NULOs, an increase in NULOs and (2) that the shift in accounting responsibilities from the AAA/CFAO to the fund administrator resulted in an increase in NULOs.

The issue of unmatched disbursements impacts NULOs in two ways. First, the inability to match disbursements to the correct obligation would result in NULOs when disbursements are posted/liquidated against the wrong obligation. Naval Audit Service Report 050-W-94 concluded that 13 percent of unliquidated obligations were, in fact, completed transactions and would have been liquidated had the payment/liquidation transaction been correctly posted. NULOs and aged, unliquidated obligations are, to this extent, offsetting errors by virtue of improperly posted disbursements. In this chapter, I will show that unmatched disbursements also contribute to NULOs when fund administrators cancel valid, unliquidated obligations for lack of a liquidation transaction. The liquidation transaction does, in fact, exist. It is an unmatched disbursement. The NULO occurs, under these circumstances, when the unmatched disbursement is corrected and posted to the now canceled underlying obligation.

Chapter II addressed the recommendations of the Marine Corps ULO/NULO/UMD Working Group concerning military occupational staffing of the financial management community as well as fund administrator staffing and training. Issues such as lack of accounting expertise, inadequate staffing, high personnel turnover, and inadequate training at the fund administrator level were

cited as contributing factors to ULO/NULO/UMD problems. Chapter III addressed the decentralization of accounting responsibilities, from the AAA/CFAO to the fund administrator, occurring during the time period 1989 through 1992 with the adoption of SABRS. The conclusion, simply stated, is this. The lack of accounting expertise at the fund administrator level did not support the decentralization of accounting responsibilities which occurred with the implementation of SABRS. The degree of accounting controls existing within the AAAs/CFAOs, which were effective in monitoring and eliminating out-of-balance conditions such as NULOs, when accounting responsibilities were centralized within the AAAs/CFAOs, were either not applicable (e.g., ACRN), not understood, or not implemented at the fund administrator level.

The purpose of Chapter IV is to address the specific causes of NULOs. This chapter will examine a selection of 65 NULOs, accounting for 21 percent, by dollar, and 8 percent, by number, of NULOs on the official accounting records of Sub-Operating Budget Holder M00681, MCB, Camp Pendleton on June 30, 1995. The chapter will begin by defining the data sample in dollar terms relative to the population and transaction type, discuss correlations existing within the data sample that serve to underscore the root problems of NULOs, define NULO error conditions, and conclude by assigning error condition codes to the data sample.

Appendix B details the data sample of 55 M&S NULOs by SABRS document number. A transaction history summary of each transaction is provided and an error condition is assigned to each. The NULOs are sorted and grouped by error condition. Appendix C details the data sample of 10 TAD NULOs, following a similar format as Appendix B.

#### **A. MISSION OF MARINE CORPS BASE, CAMP PENDLETON**

The mission of Marine Corps Base, Camp Pendleton is to support and maintain the permanent installation, facilities, and logistics capabilities of the Camp



in support of its principal tenant, the I Marine Expeditionary Force. It is funded by a Sub-Operating Budget (NAVCOMPT 2168-1) issued by the Commanding General, Marine Forces, Pacific. Its O&M,MC operating budget was \$164.1M in Fiscal Year 1995.

## B. DATA SAMPLE

Baseline numbers for UMDs and NULOs were initially published by DFAS for each military department as of October 1, 1994. This "October Baseline" would serve as a benchmark from which UMD and NULO reduction efforts would be subsequently measured. HQMC, likewise, published a "Field Baseline" for forty of its Operating and Sub-Operating Budget Holders as of the same date. In the case of MCB, Camp Pendleton (M00681) the "October Baseline" of NULOs totalled \$4,481,000. On June 30, 1995, when the data sample was drawn, the total dollar value of NULOs had been reduced to \$2,755,881, summarized by SABRS subsystem and fiscal year, as follows:

	Material & Services		Travel		Total	
Year	Dollars	Number	Dollars	Number	Dollars	Number
FY89	\$ 30,448	6			\$ 30,448	6
FY90	200	1	\$ 7	1	207	2
FY91	44,075	7			44,075	7
FY92	78,402	29	2,167	5	80,569	34
FY93	1,125,521	50	33,067	36	1,158,588	86
FY94	1,206,502	91	31,476	76	1,237,978	167
FY95	179,470	303	24,541	66	204,011	369
	\$2,664,620	487	\$91,261	184	\$2,755,881	671

Table 4-1. MCB, Camp Pendleton NULOs, 30 June 1995

According to the MCB, Camp Pendleton Budget Officer, the 38.5% reduction occurring since October 1994 was due to a "full court press" on the part of his managerial accounting staff to eliminate NULOs.

### **C. DATA SAMPLE DESCRIPTION**

The data sample of NULOs can best be categorized according to the SABRS Subsystem to which it applies. As discussed in Chapter III, NULOs occur in two of the three Spending Subsystems - Material & Services (M&S) and Travel. It will be recalled that NULOs do not occur in the Labor Subsystem due to the manner in which labor obligations are recorded. Labor transactions are input into SABRS after payment has already occurred. M&S transactions are further categorized as either (1) supply requisitions submitted through the Direct Stock Support Control, (2) purchase or delivery orders issued by the Marine Corps Regional Contracting Office, or (3) reimbursable purchase agreements with other Marine Corps or other DoD components. Travel orders for Temporary Additional Duty (TAD) comprise the other category of obligations to be reviewed. A more detailed description of the category and type of transactions to be reviewed are as follows:

#### **1. Materials & Services (M&S) Subsystem**

##### ***a. DSSC Supply Requisitions***

DSSC requisitions for off-the-shelf items (administrative office supplies and other consumable supplies) are recorded as simultaneous reservations, obligations, expenditures, and liquidations on fund administrators' Material & Services Transaction Ledgers. DSSC customers' appropriation data is captured at the point of sale by use of precoded credit cards. Requisitions which cannot be filled immediately are outsourced to Integrated Item Managers through the Resource Management System (RMS) and manually input into SABRS by the requisitioning fund administrator. NULOs do not occur for off-the-shelf requisitions but do occur for the later category of supply requisition backorders.

***b. RCO Commercial Contracts***

Commercial contracts examined included contracts for goods or services, construction contracts, and real property maintenance contracts.

***c. Interservice/Intergovernmental Work Requests***

Work requests are used to requisition goods (supplies) or services from another government agency. If the source of supply is another Navy or Marine Corps activity, the appropriate funding document is the NAVCOMPT Form 2275. Goods or services requested from Army, Air Force, or other DoD components are funded by means of a Military Interdepartmental Purchase Request, DD Form 448.

**2. Travel Subsystem**

Travel orders are recorded as obligations by the fund administrator based upon the traveler's projected travel entitlement. In virtually all cases, an adjustment to the travel obligation initially recorded when the travel order was issued is required when the traveler's travel claim is computed and his/her travel entitlement is known. Although SABRS incorporates an automatic adjustment feature when the final liquidation is within a specified dollar value of the recorded obligation, manual adjustment of the obligation is required in all other cases.

Transportation in support of TAD orders is generally provided by means of Government Travel Requests (GTR). GTRs are issued locally by Consolidated Travel Offices but paid for on a centralized basis by the Commanding Officer, Marine Corps Logistics Base (MCLB), Albany, Georgia (Disbursing Symbol Station Number 5159), with a corresponding charge to the Operating/Sub-Operating Budget of the Fund Holder directing the travel. For this reason, liquidation transactions for TAD obligations occur separately for per diem and for transportation. Although NAVCOMPT Volume IV (paragraph 0404) requires that listings of transportation requests paid be forwarded daily to the activity accounting for the

funds charged, liquidation transactions lag per diem liquidations and, consequently, are unliquidated obligations for longer periods of time. For the 10 TAD transactions examined, the average lag time between the obligation and liquidation of GTRs was 44 cycles, or roughly 8-9 months. It will be shown that this delay in liquidating GTR obligations increases the possibility that valid but unliquidated obligations are erroneously canceled.

#### **D. DATA SAMPLE STATISTICS**

The composition of the data sample is as follows:

	<b>Number</b>	<b>NULO</b>
Material & Services:		
DSSC Supply Requisitions	7	\$ 40,239.53
RCO Commercial Contracts	46	\$534,733.51
Work Requests (NAVCOMPT 2275)	1	\$ 2,160.89
Other	1	\$ 103.54
Travel Orders	10	\$ 12,067.71
Total	65	\$589,305.18

**Table 4-2. Composition of the Data Sample**

The criteria for selection of a transaction for detailed testing was a NULO condition of \$1000 or more or a NULO condition of at least 200% of the obligated amount.

#### **E. GENERAL CHARACTERISTICS OF NULOS**

NULOs are highly associated with UMDs and, in the case of contracts, multiple CLINs. NULOs are also highly correlated with specific Document Identifier Codes which are used either to record obligations (XSI) or to adjust

recorded obligations (XRA). These correlations serve to define the conditions under which transactions are most likely to become NULOs. Understanding these correlations will better allow us to identify the root problems of NULOs and to concentrate our correction efforts with greater effect.

### **1. Correlation Between UMDs and NULOs**

As indicated in Chapter I, NULOs and UMDs have generally been addressed within DoD as related issues. They are indeed different issues, but related in one important respect. Of the original Material & Services' data sample, 24 percent of the transactions' liquidation entry(ies) were at one point unmatched disbursements. This contrasts to a UMD rate for MCB, Camp Pendleton as a whole of approximately 5-6 percent. Regardless of the specific action (error condition) resulting in the creation of a NULO, 24 percent of NULOs were previously UMDs.

The correlation between UMDs and NULOs is more pronounced in the case of TAD. Multiple payment/liquidation transactions associated with TAD leads to a greater number of unmatched disbursements. For the 10 TAD orders/obligations reviewed, 4 had a prior record of one or more UMDs associated with the record - a rate of unmatched disbursements higher than that of Material & Services' transactions.

### **2. Correlation Between Contract Line Item Numbers and NULOs**

In an effort to determine the number of detail obligations for a representative sampling of 18 contracts included in the data sample and the extent to which NULOs are correlated with contracts citing multiple document numbers (detail obligations), a special report was prepared by the Defense Accounting Office, Camp Pendleton, summarizing by contract number, the unliquidated balance of each detail obligation cited on each of the 18 contracts comprising the report. The report generated 669 pages of detail obligations, or in excess of 10,000

document numbers. Contracts which, in total, were not over-disbursed contained NULOs at the CLIN or detail obligation level.

### **3. Correlation between Document Identifier Code XSI, XRA and NULOs**

Another significant correlation which exists in the M&S data sample is the relatively high number of obligations recorded or adjusted by means of specific Document Identifier Codes (DIC) "XSI" and "XRA." According to the SABRS' Material and Services User's Manual the purpose of DIC "XSI" is "to create ...reservations, obligations and expenses of M&S records, [while the purpose of DIC XRA] is to adjust [the] reservation, obligation and expense to the liquidated amount." [Ref. 51:p. 8-A-3] Typically, DIC "XSI" would be used to record DSSC or expense-type transactions for which materiality would suggest the simultaneous recognition of the reservation, obligation, expense, and liquidation as opposed to the sequential processing of the transaction through these same stages or states. DIC "XRA" is to be used to adjust the obligation of a completed transaction to the final liquidation amount. Of importance here is the requirement that use of DIC "XRA" be for the purpose of finalizing completed transactions for which research by the fund administrator has validated the liquidation or payment amount. Use of these DICs is not, by itself, an erroneous action. DICs "XSI" and "XRA" will first be addressed as DICs that are highly correlated with NULOs.

As stated previously, DSSC requisitions are posted under DIC "XSI," a simultaneous recognition of an order's reservation, obligation and expense by virtue of materiality. DSSC requisitions of expense-type, consumable supplies are expensed when purchased/requisitioned. One would not expect to see an "XSI" DIC used as a means of recording commercial contract obligations or DSSC backorders for which immediate receipt and use is not envisioned. In the case of commercial contract NULOs, however, 20 percent were originally obligated by use of DIC "XSI." Use of DIC "XSI" was, in many instances, an indication that the

obligation was recorded no sooner than receipt of the goods or services contracted for or that the contract was only partially recorded prior to the payment giving rise to the NULO condition. In addition, open purchase contracts obligated under DIC "XSI" lacked a "XSR" transaction, an indication that the BCAS interface, which would have automatically established the obligation, was inoperative for lack of a matching reservation transaction.

NULOs are also correlated with use of DIC "XRA." Twenty-five percent of the M&S data sample had been adjusted -- increases and decreases -- by use of this DIC. In all but one case, the adjustments were to commercial contract obligations. Changes in the value of commercial contract obligations typically result from contract modifications, for which the amended DD Form 1155 serves as the source document substantiating the increase or decrease to the recorded obligation. In the cases examined, however, recorded obligations were being adjusted to the (then) liquidated amount without adequate source documentation. Document Identifier Code, "XRA," was being used repeatedly to make erroneous adjustments to transactions and not, as was originally envisioned, to make price/quantity adjustments to completed transactions.

#### **F. ERROR CONDITIONS**

NULOs occur, primarily, as a result of fund administrator errors or as disbursing errors. Fund administrator errors occur when obligations are initially recorded or subsequently modified, if the recorded obligation is less than the underlying source document, or when invoices are erroneously certified to be posted against the wrong document number (obligation). Disbursing errors occur if payments are erroneously computed, if partial payments are erroneously input into MCERRS as final payments, or if disbursements are erroneously posted to the wrong document number/obligation.

Error conditions developed for the purpose of identifying and summarizing the causes of NULOs in the Marine Corps' O&M appropriation are specific to the category of obligation and SABRS Subsystem to which it applies. For this reason, error conditions are defined as Material & Services' (M&S) error conditions or Travel error conditions. Within the overall classification of error conditions as either M&S or Travel error conditions, error conditions are further subdivided as fund administrator (FA) or disbursing (DISB) error conditions. Within each category of FA or DISB errors, specific actions or causes which would lead to a NULO condition are numbered sequentially 1,2,3, et cetera.

## **G. MATERIAL & SERVICES' ERROR CONDITIONS**

### **1. Fund Administrator Errors**

- **FA-1.** No obligation on file at the time of payment. This event, by itself, leads to an UMD and not a NULO. However, if the fund administrator fails to record an obligation when required and subsequently records the obligation based upon a partial payment, and thereafter the obligation enters a NULO status by virtue of another partial or final payment, the principal error must be considered the fund administrator's failure to record the obligation initially. This transaction is principally evidenced through the DIC "XSI."
- **FA-1A.** Obligation recorded initially at a lesser value than the basic source document. This error condition encompasses those instances when the obligation was understated when first recorded.
- **FA-2.** Obligation not updated to reflect contract modification increases, notification of price/quantity changes on supply requisitions, or other changes in the underlying source document.
- **FA-3.** Deobligation of funds due to partial payment/liquidation. Although the value of the obligation may initially have been correctly recorded, the obligation was subsequently reduced to equal a partial payment/liquidation. A subsequent partial or final payment created a NULO condition of the same amount. The condition will be primarily evidenced by the Document Identifier Code "XRA," a transaction input by the fund administrator to simultaneously adjust



the recorded reservation, obligation, and expenditure to the liquidated amount.

- **FA-4.** Fund administrator deobligation of unliquidated obligation balances due to one or more payments posted as unmatched disbursements. This category of error is similar to condition code FA-3 in that the fund administrator erroneously reduces the value of an obligation without a source document substantiating the adjustment but differs in that, at one point in time, the payment/liquidation transaction was unmatched. The erroneous adjustment may also occur as a result of an "XRA" transaction. Here again, however, it is the existence of an unmatched disbursement that distinguishes this error condition.
- **FA-5.** Incorrect endorsement of vendor invoice charging wrong SABRS standard document number. Overall contract threshold has not been exceeded. NULO exists at the obligation level only.
- **FA-6.** NULO attributable to incorrect transaction processing of document ACRNs; a mismatch between the ACRN under which the document was obligated and the ACRN which was input into MCERRS upon settlement.

## **2. Disbursing Errors**

- **DISB-1.** Payment exceeds the authorized amount.
- **DISB-2.** NULO attributable to misposting of document numbers in cases of multiple document number disbursement vouchers. The fund administrator has correctly endorsed the vendor's invoice for payment. The error has occurred in the incorrect input, or misallocation of the payment amount to multiple document numbers/obligations.
- **DISB-3.** Obligation finalized by erroneous coding of a partial/progress payment as a final payment.

## **H. TRAVEL ERROR CONDITIONS**

The following error conditions are applicable to obligations recorded in the Travel Subsystem. Although they mirror, in principle, error conditions described

above, they are specific to TAD obligations. As above, they are categorized as either fund administrator (FA) errors or disbursing (DISB) errors, sequentially numbered, and distinguished from M&S error conditions by the addition of a "T."

**1. Fund Administrator Errors**

- **FA-1T.** Obligation not recorded by fund administrator. Again, this condition would lead to an UMD for lack of an obligation for the liquidation transaction to post against. This condition will apply if a NULO condition exists and it is determined that the obligation was not recorded at the time the travel orders were issued.
- **FA-2T.** Obligation understated due to incorrect travel cost estimate. Travel liquidation exceeded travel cost estimate/obligation. Variance exceeded threshold for automatic adjustment of obligation to settlement/liquidation amount and manual adjustment has not occurred.
- **FA-3T.** Government Travel Request (GTR) deobligated by fund administrator. As noted earlier, the consolidated payment of GTRs and the different processes by which liquidations are recorded lead to longer time lags between obligation and liquidation. The longer the GTR is unliquidated, the greater the chance it may, at some point, be canceled.
- **FA-4T.** Travel obligation reduced by Fund Administrator after issuance of the travel orders and initial obligation of funds.
- **FA-5T.** Travel advance not reported on travel voucher. Travel settlement exceeded travel entitlement. Correction of this condition would require recoupment of the travel advance from the traveler.

**2. Disbursing Errors**

- **DISB-1T.** Payment exceeds travel entitlement.
- **DISB-2T.** Recoupment of a travel advance incorrectly coded as travel liquidation. Travel advances are recognized in SABRS as advances by use of transaction type code, 1K. Travel advances are posted to the General Ledger as debits to account 14110 (Travel Advances). Recoupment of the advance is accomplished by reversing

the original debit entry. If recoupment of the advance is not coded as a "1K" credit, it will be posted as a regular disbursement, transaction type code (2D). Two "2D" postings, one for the recoupment and the other for the final settlement, will result in a NULO equal to the amount of the advance. The NULO condition is offset by the existence of an uncollected travel advance. Correction of the transaction type code will eliminate the NULO condition.

## **I. DISTRIBUTION OF M&S ERROR CONDITIONS**

Table 4-3 is the distribution of error conditions for M&S transactions by dollar amount and item count, as a percent of the M&S data sample. The table highlights that a high percentage of NULOs are due to (1) the lack of an obligation at the time of payment/liquidation (FA-1/1A: 29%) and (2) an obligation recorded for less than the payment/liquidation amount (FA-2: 34%). In addition, the Table highlights a high percentage of NULOs due to fund administrator cancellations of the unliquidated balances of unfinalized transactions (FA-3/4: 24%). In total, 86 percent of M&S NULOs were attributable to either fund administrators failing to record the obligation in the correct amount at the outset or due to an erroneous de-obligation of the unliquidated balance of an unfinalized transaction.

## **J. TAD NULOS**

Whereas, on average, TAD expenditures represent less than 1 percent of MCB, Camp Pendleton's non-civilian labor O&M,MC operating budget, TAD NULOs represent 3.5 percent, by dollar amount, and 27 percent, by number, of total NULOs. The reason for a higher NULO incident rate among TAD transactions is two-fold. First, TAD transactions involve multiple liquidations and hence have higher rates of UMDs associated with them. Forty percent of TAD NULOs had a prior record of one or more UMDs associated with the record - a rate of unmatched disbursements higher than that of M&S transactions (24%). Second, the lag time between obligation and liquidation of GTRs for the 10 travel

	FUND ADMINISTRATOR						DISBURSING			
	FA-1	FA-1A	FA-2	FA-3	FA-4	FA-6	TOTAL	DISB-1	DISB-2	TOTAL
Dollar	7%	1%	30%	11%	7%	7%	63%	3%	34%	37%
Item Count	20%	9%	34%	7%	16%	2%	88%	4%	8%	12%

- Notes:**
- **FA-1.** No obligation on file at the time of payment. This event, by itself, leads to an UMD and not a NULO. However, if the fund administrator fails to record an obligation when required and subsequently records the obligation based upon a partial payment, and thereafter the obligation enters a NULO status by virtue of another partial or final payment, the principal error must be considered the fund administrator's failure to record the obligation initially. This transaction is principally evidenced through the DIC "XSI."
  - **FA-2.** Obligation not updated to reflect contract modification increases, notification of price/quantity changes on supply requisitions, or other changes in the underlying source document.
  - **FA-3.** Deobligation of funds due to partial payment/liquidation. Although the value of the obligation may initially have been correctly recorded, the obligation was subsequently reduced to equal a partial payment/liquidation. A subsequent partial or final payment created a NULO condition of the same amount. The condition will be primarily evidenced by the Document Identifier Code "XRA," a transaction input by the fund administrator to simultaneously adjust the recorded reservation, obligation, and expenditure to the liquidated amount.
  - **FA-4.** Fund administrator deobligation of unliquidated obligation balances due to one or more payments posted as unmatched disbursements. This category of error is similar to condition code FA-3 in that the fund administrator erroneously reduces the value of an obligation without a source document substantiating the adjustment but differs in that, at one point in time, the payment/liquidation transaction was unmatched. The erroneous adjustment may also occur as a result of an "XRA" transaction. Here again, however, it is the existence of an unmatched disbursement that distinguishes this error condition.
  - **FA-5.** Incorrect endorsement of vendor invoice charging wrong SABRS standard document number. Overall contract threshold has not been exceeded. NULO exists at the obligation level only.
  - **FA-6.** NULO attributable to incorrect transaction processing of document ACRNs; a mismatch between the ACRN under which the document was obligated and the ACRN which was input into MCERS upon settlement.
  - **DISB-1.** Payment exceeds the authorized amount.
  - **DISB-2.** NULO attributable to misposting of document numbers in cases of multiple document number disbursement vouchers. The fund administrator has correctly endorsed the vendor's invoice for payment. The error has occurred in the incorrect input, or misallocation of the payment amount to multiple document numbers/obligations.

**Table 4-3. Distribution of M&S Error Conditions**

obligations examined was approximately 8-9 months. By virtue of these two conditions, TAD obligations, in particular that portion of TAD obligations representing GTRs, are liquidated more slowly than M&S transactions and hence are more likely to be cancelled by fund administrators. In fact, the data analysis confirms that the largest category of TAD NULOs is due to the cancellation of GTRs (FA-3T - 30%). Of the 3 errors noted in this category, 1 GTR obligation was equal to 2 GTRs issued less \$1000.00, while the other 2 travel obligations reviewed had GTR liquidations posted against obligations not recorded or subsequently cancelled prior to liquidation. GTRs are more apt to be cancelled due to the greater numbers of UMDs associated with TAD and the long lag time between obligation and liquidation.

#### **K. DISTRIBUTION OF TAD ERROR CONDITIONS**

The SABRS Travel Subsystem provides less of an audit trail of transactions than does the M&S Subsystem. Whereas the M&S Subsystem provides a detail audit trail of each accounting entry, the Travel Subsystem merely reflects the current balance of a transaction at any given point in time. Consequently, the determination that an obligation was not recorded, recorded late, or adjusted prior to liquidation was, in part, judgmental. Table 4-4 highlights that 20 percent of TAD NULOs are due to incorrect travel cost estimates. The majority of errors, 60 percent, are due to fund administrator adjustments to recorded obligations, either through cancellation of GTRs or other reductions.

The TAD data sample is characterized by its complexity, due largely to multiple liquidations and the existence of travel advances. As noted earlier, 40 percent of the sample had at least one or more UMDs posted to the record. Two of the transactions had 9 or more liquidation transactions or corrections of liquidation transactions posted against the record. Payment transactions were frequently in error due to an incorrect subhead, ACRN, or transaction type

	FUND ADMINISTRATOR						DISBURSING		
	FA-1T	FA-2T	FA-3T	FA-4T	FA-5T	TOTAL	DISB-1T	DISB-2T	TOTAL
Dollar		29%	22%	23%	4%	78%	22%		
Number		20%	30%	30%	10%	90%	10%		

- Notes:**
- **FA-1T.** Obligation not recorded by fund administrator. Again, this condition would lead to an UMD for lack of an obligation for the liquidation transaction to post against. This condition will apply if a NULO condition exists and it is determined that the obligation was not recorded at the time the travel orders were issued.
  - **FA-2T.** Obligation understated due to incorrect travel cost estimate. Travel liquidation exceeded travel cost estimate/obligation. Variance exceeded threshold for automatic adjustment of obligation to settle-ment/liquidation amount and manual adjustment has not occurred.
  - **FA-3T.** Government Travel Request (GTR) deobligated by fund administrator. As noted earlier, the consolidated payment of GTRs and the different processes by which liquidations are recorded lead to longer time lags between obligation and liquidation. The longer the GTR is unliquidated, the greater the chance it may, at some point, be canceled.
  - **FA-4T.** Travel obligation reduced by Fund Administrator after issuance of the travel orders and initial obligation of funds.
  - **FA-5T.** Travel advance not reported on travel voucher. Travel settlement exceeded travel entitlement. Correction of this condition would require recoupment of the travel advance from the traveler.
  - **DISB-1T.** Payment exceeds travel entitlement.
  - **DISB-2T.** Recoupment of a travel advance incorrectly coded as travel liquidation. Travel advances are recognized in SABRS as advances by use of transaction type code, 1K. Travel advances are posted to the General Ledger as debits to account 14110 (Travel Advances). Recoupment of the advance is accomplished by reversing the original debit entry. If recoupment of the advance is not coded as a "1K" credit, it will be posted as a regular disbursement, transaction type code (2D). Two "2D" postings, one for the recoupment and the other for the final settlement, will result in a NULO equal to the amount of the advance. The NULO condition is offset by the existence of an uncollected travel advance. Correction of the transaction type code will eliminate the NULO condition.

**Table 4-4. Distribution of Travel Error Conditions**

code. Corrections of erroneous corrections were often noted, creating an audit trail that was difficult to follow.

**L. SUMMARY OF DATA ANALYSIS**

The data analysis supports the conclusion that erroneous actions of fund administrators are largely responsible for NULOs, either by their failing to record the obligation at the outset or recording it only partially, or by erroneously cancelling or reducing the value of an obligation prior to its liquidation.





## **V. ORGANIZATIONAL ISSUES**

Chapter V seeks answers to the following questions:

1. Why the issue of NULOs was not previously identified as a significant material weakness by the Marine Corps.
2. Why existing SABRS' internal control features were ineffective in identifying and preventing NULOs.

This chapter will serve as an important precursor to Chapter VI recommendations for eliminating NULOs within the Marine Corps' O&M appropriation. It is important to understand the conditions under which NULOs existed, largely unknown, to senior officials. If, in fact, organizational and administrative control procedures were inadequate, then changes or corrections may be suggested in these areas as well. It is also important to assess the adequacy of SABRS' internal controls to determine their effectiveness in both preventing out-of-balance conditions and alerting managers to their existence.

### **A. NULOS - LACK OF VISIBILITY**

As addressed in Chapter II, the identification of NULOs as a material DoD internal control weakness must be credited, in large part, to the work of the GAO working in collaboration with the Senate Committee on Governmental Affairs. The question must be asked why it is that this issue was not previously identified within the military departments, and specifically the USMC, as a significant material weakness requiring corrective action?

The answer to this question is threefold: (1) SABRS management reports did not specifically identify or report NULOs, (2) those management reports which would have proved useful in eliminating NULOs were either misunderstood or underutilized, and (3) existing financial management performance standards did not

address the NULOs and may have had the unintended consequence of exacerbating the problem. Each of these subjects will be addressed, in turn, below.

### **1. Development of the SABRS M118**

Although a recommendation of the ULO/NULO/UMD Working Group called for the development of a SABRS report detailing "NULO transactions at [the] OPBUD/SubOPUD/FA level" [Ref. 4], in fact, such a report already existed in the form of the M118, Negative Unliquidated Obligation Report. The report lists all M&S records for which the liquidation exceeds the obligation. It also reports on the number of days the condition has existed. According to DFAS-Kansas City Center, initial work on the M118 began during June 1993 and was completed and ready for production and use during April 1994. A description and format of the M118 was incorporated in the November 1994 rewrite to the M&S User's Manual, although distribution of the revised manual did not occur in volume until the spring of 1995. Notwithstanding the availability of the M118 beginning in April 1994, Marine Corps financial managers appeared to have been largely unaware of the report's existence at the time of the ULO/NULO/UMD Working Group meeting in January 1995.

Prior to the development of the M118, SABRS' did not possess the capability to separately identify and report NULO transactions. The principal SABRS report detailing unliquidated obligations, the M150 Unliquidated Orders Status Report, lists only positive ULO balances. Although Fund Administrators would be aware of NULOs by monitoring their Daily Transaction Update Report (M275), no cumulative listing of NULOs existed prior to development of the M118.

Likewise, the General Ledger (NAVCOMPT 2199) provided no separate classification of NULOs in an account which would have alerted managers to both

their existence and the magnitude of the problem. NULOs are distributed throughout the General Ledger as assets and expenses, in whatever account the original obligation would be recorded based upon the Object Class/Subobject Class of the transaction. This is in contrast to the other major category of problem transactions, UMDs, which are separately reported on the General Ledger under the account "Undistributed Disbursements," account number 10150. For all ostensible purposes, NULOs were an invisible condition.

## **2. Suspect Payment Report - SABRS M180**

Management reports which would have alerted financial managers and fund administrators of NULO conditions are those reports which "flag" liquidations exceeding obligated amounts. These reports are the (1) Suspect Payment Report (M180), (2) Liquidation Exceptions Report (M203) in the M&S Subsystem, the (3) Adjustment Exception Listing Report (T155), and (4) Government Transportation Request Exception Listing Report (T151) in the Travel Subsystem. These are exception reports which list transactions/obligations for which a final liquidation/payment has posted and for which a ULO or NULO exists in an amount greater than a specified "value parameter." Value parameters, which must be specified for both the M&S and Travel subsystem, are thresholds for automatic adjustment of recorded obligations to final liquidated amounts. In the case of these reports no automatic adjustment of the obligation has occurred and none will, by virtue of the liquidation-obligation variance exceeding the designated value parameter. In effect, SABRS will prevent NULOs by increasing funds obligated when two conditions exist, (1) the payment is coded as a final or complete payment and (2) the difference between funds obligated and the amount liquidated (paid) is less than the value parameter. For differences exceeding the value parameter, the transaction will default to the exception reports noted above and require research and correction by the fund administrator.

These reports (M180, M203, T155, T151) are not referred to in the Marine Corps' Order P7300.20, SABRS Financial Procedure Manual, or Camp Pendleton's published Financial Management SOP. These reports are described in terms of the structure and format of the report in the appropriate SABRS' Subsystem Users Manuals, but what is not addressed is the manner in which fund administrators are to use these reports to identify and correct out-of-balance conditions. At least in terms of formal instructions, little was written on how to use SABRS' existing management reports to identify and correct NULOs.

### **3. Financial Management Performance Standards**

Marine Corps financial management performance standards did not require identification or reporting of NULOs or UMDs. Moreover, there are indications that existing performance standards may have had the unintended consequence of increasing both the number and dollar value of transactions in a NULO status. The principal financial management performance standards for which Fund Holders are held accountable are as follows: [Ref. 38:p. 4-179]

#### ***a. Obligation Rate Performance***

Because O&M funds are one year in nature, funds uncommitted at year-end expire for the purpose of entering into new obligations. To preclude this loss of obligational authority and to assist Fund Holders in monitoring spending rates, obligation rate goals are established for funds authorized each fiscal quarter. For Sup-Operating Budget Holders under the authority of the Commander, Marine Forces, Pacific, obligation rate goals are as follows:

1st Qtr: 88%	3rd Qtr: 95%
2nd Qtr: 92%	4th Qtr: 99.5%

**Table 5-1. MARFORPAC Obligation Rate Goals**

***b. Undelivered Orders Reduction***

At the end of each fiscal year, a given level of recorded obligations are unliquidated as either unbilled, unpaid, or both. To expedite the receipt and payment of all prior year transactions and to identify and de-obligate funds on invalid or canceled transactions, the SABRS Financial Procedures Manual requires "quarterly review(s) of outstanding unfilled and unliquidated obligations." [Ref. 46:p. 4-16] The Marine Forces, Pacific Financial Management SOP assigns quarterly goals for percentage reductions in undelivered/unliquidated orders (UDO/ULO). Percentage reduction goals are measured against UDOs/ULOs in existence at the end of the applicable fiscal year and increase with each fiscal quarter thereafter (5th Qtr -43%, 6th Qtr - 65%, 7th Qtr. - 79%, 8th Qtr - 84%, 9th Qtr - 91%, 10th Qtr - 98%). [Ref. 38:p. 4-192]

***c. Reversion of Funds***

Reversions refer to reverted funds, or obligational authority which has expired for the purpose of entering into new obligations. The O&M appropriation is a one-year appropriation. After one year, obligational authority ("funds") reverts to Headquarters, Marine Corps. Reversions occur as a result of failing to obligate funds during the period for which the appropriation is active and as a result of canceling prior year obligations. For this reason, in the current year, quarterly validations of all unliquidated obligations are required to preclude cancellations after the end of the fiscal year. In any given year, reversions are not to exceed 5% of total obligational authority.

Marine Forces, Pacific Sub-Operating Budget Holders and organizations reportable to them (Major Subordinate Commands) are required to submit quarterly reports to higher headquarters comparing actual performance to established goals. If assigned goals have not been achieved, narrative justification is required.

## **B. PERFORMANCE REPORTING**

Performance goals and performance reporting serve many purposes within organizations, one among them is goal congruence. For example, the pursuit and attainment of financial performance goals at the Sub-Operating Budget and Major Subordinate Command level is evidence of proper and efficient management of financial resources. Performance standards may also, however, have unintended consequences in terms of sub-optimization or goal incongruent behavior. The question to be asked is this. Might performance reporting have also played a role in the failure of the Marine Corps Fund Holders to identify and correct NULOs prior to DoD deadlines calling for their correction and elimination and in Congressional legislation requiring the same?

Given the fact that formal reporting and the assignment of reduction goals now form the basis of DoD, DoN, and HQMC efforts to monitor the correction and elimination of NULOs, it is reasonable to conclude that formal reporting implemented earlier would have led to the elimination of NULOs prior to the issuance of DoD mandates to do so. Whereas it is quite clear that the absence of performance goals for NULOs is certainly a factor in past failure to recognize and correct NULOs, what is less clear is the extent to which existing performance goals (obligation rate performance, undelivered orders reduction, reversion of funds) may have had unintended consequences in terms of NULOs, either their dollar value or lack of identification and/or correction.

Although obligation rate goals and ceilings on reverted funds would have little impact on NULOs in terms of detection or correction, UDO/ULO reduction goals may have led fund administrators to deobligate unliquidated balances of orders for goods and services which were completed but for lack of a liquidation transaction. Twenty-three percent of M&S NULOs examined in Chapter IV were attributable to fund administrator cancellations of valid obligations (error conditions

FA-3 & FA-4). Cancellations of recorded obligations which most likely would have occurred as a result of quarterly or monthly validations of UDOs/ULOs.

### **C. UDO/ULO PERFORMANCE GOALS**

Undelivered orders are defined as contracts, project orders, purchase orders, and requisitions issued for goods or services for which funds have been obligated but are currently unreceived. In all cases, undelivered orders should also be unliquidated obligations, as receipt of goods or services and recognition of the accounts payable have not occurred. The terms are roughly comparable and can be looked upon as a measure of goods and services that are (1) not received and (2) unpaid. Confusion between the two terms does exist, however, leading to a recommendation by the NULO Working Group that the Department of Defense/Department of Navy publish standard definitions of the terms UMD, ULO, NULO, and UDO. Marine Corps Order P7300.20 - Standard Accounting, Budgeting and Reporting System (SABRS) Financial Procedure Manual refers to undelivered orders and unliquidated obligations as synonymous terms [Ref. 46:p. 4-16] for the purposes of conducting validations of undelivered orders and unliquidated obligations. The SABRS report used to conduct quarterly reviews in the M&S subsystem is the M150, Unliquidated Order Status Report, a report that details only ULOs. The corresponding report in the Travel subsystem for the verification of Outstanding Travel Orders (OTO) is the T147, Unliquidated Travel Orders Report. The principal means of accomplishing UDO/ULO/OTO validations is through verification of outstanding orders' supply status and verification of TAD performed.

The requirement to achieve UDO/ULO/OTO percentage reduction goals would lead to an increase in NULOs if, during the course of a quarterly review and validation of UDOs/ULOs, unliquidated obligations were canceled by fund administrators. The likely candidates for such an action in the M&S subsystem

would be those transactions/obligations which were for goods or services ordered and already received, but unliquidated by virtue of an unmatched disbursement. In the Travel subsystem candidates for such an action would be those transactions for which a significant time lag existed between obligation and liquidation, namely GTRs. Whereas, previously, fund administrators submitted source documents to the AAA/CFAO for all official accounting transactions, under SABRS, fund administrators were only required to have source documents on file. For lack of an explanation as to why completed transactions remained unliquidated, fund administrators may have canceled aged unliquidated obligations. Under these circumstances, DIC "XRA" would result in the cancellation of the unliquidated transaction balance and removal of the transaction from the M150/T147 report and the requirement to conduct future quarterly validations of the unliquidated obligation.

Naval Audit Service report 050-W-94 suggested that, to some extent, invalid ULOs and NULOs were offsetting errors by virtue of improperly posted disbursements. To the extent that financial managers regarded invalid ULOs and NULOs as offsetting errors, by virtue of incorrectly posted disbursements/liquidations, Fund Holders would have focused on the overall balance of UDOs/ULOs for the purpose of reporting percentage reductions in UDOs/ULOs. NULOs, in whatever fiscal year they existed, reduce Fund Holders' overall balance of unliquidated obligations and increase UDO/ULO percent reduction.

The impact of NAS 050-W-94, by emphasizing UDO/ULO reduction, may have led to a greater willingness to cancel the unliquidated balances of completed transactions. Financial management personnel, at all levels, would have been more interested in meeting UDO/ULO percentage reduction goals due to the command emphasis that NAS 050-W-94 brought about.



#### **D. SABRS INTERNAL CONTROLS**

SABRS incorporates internal control features to ensure, within established parameters, that obligations are adjusted to final liquidated amounts and that obligations are not reduced to an amount less than what is currently recognized as the value of goods and services received, in effect, what is currently recognized as the accounts payable. These controls, as designed, would work as follows to correct, identify, and prevent NULO conditions from occurring.

a. A NULO occurring in the M&S subsystem would be automatically eliminated by an increase to the recorded obligation to match the final liquidation (MCERRS class code 1 & 3) when the following conditions apply: (1) the difference between the liquidation and obligation is less than the "value parameter" assigned by the Fund Holder and (2) the transaction's physical quantity of goods or services input at each stage of transaction processing (obligation, expense, and liquidation) are equal. Value parameters, which must be specified for both the M&S and Travel subsystem, are thresholds for the automatic adjustment of recorded obligations to final liquidated amounts. In the case of MCB, Camp Pendleton, the value parameters assigned on December 1, 1995 were \$0.00 for M&S transactions and \$250.00 for TAD transactions.

b. NULO conditions exceeding established value parameters would default to the appropriate SABRS Subsystem Suspect Payment Report (M118/T155/T151). Research would be required to determine the validity of the NULO. If correct, adjustment of the obligation by means of DIC "XRA" would be required.

c. M&S transactions which would have been finalized, based upon a final liquidation posting, but were not by virtue of an imbalance in the quantity fields would default to the Liquidation Exceptions Report (M203). This report shows liquidations that were to be finalized by virtue of an adjustment to the

recorded obligation but were not because the total quantity liquidated did not equal the total quantity expensed and the total quantity obligated.

d. To preclude erroneous decreases to obligations which would lead to NULOs, SABRS will not allow an obligation to be reduced to an amount which is less than what is currently recognized as the cost of goods or services received (exception code E02).

A more through discussion of these controls and the reasons why these controls have proved less effective in preventing NULOs than would otherwise have been the case follows.

#### 1. MCERRS Class Codes

Input of disbursement data into MCERRS allows, but does not require, classification of a payment into one of 6 classes:

1. Final Payment	4. Advance Payment
2. Partial Payment	5. Progress Payment
3. Complete Payment	6. Supplement Payment

**Table 5-2. MCERRS Class Codes**

Specifying a payment as a final payment (class code 1) or complete payment (class code 3) will finalize the transaction by adjusting the reservation, obligation, and expense field to the liquidated amount if the liquidation-obligation difference is less than the value parameter and in the case of M&S transactions, the quantity fields (obligation, expense, and liquidation) are equal. This control feature

prevents low dollar NULOs from occurring by virtue of SABRS' automatic adjustment feature. A transaction with a final liquidation-obligation variance which exceeds the value parameter will not lead to an automatic adjustment and will default to the respective SABRS' subsystem exception reports noted earlier. In all cases, SABRS' automatic adjustment features are dependent upon the correct input into MCERRS of final payments as class code 1 or 3.

At least on the date the value parameters were verified, December 1, 1995, designation of a \$0.00 M&S value parameter would have effectively disabled the automatic adjustment feature for M&S transactions. In discussions with MCB, Camp Pendleton, personnel the value parameter is normally set at \$250.00. If we assume the M&S value parameter was \$250.00 for the fiscal years comprising the data population, 315 of 487 (65%) of M&S transactions would still have been unadjusted by virtue of either one or both of the conditions required for automatic adjustment, that is, either the final liquidation was not coded as such in MCERRS or the quantity fields in SABRS were not equal.

The Travel subsystem value parameter was \$250.00 on December 1, 1995. In the Travel subsystem automatic adjustment occurs if the liquidation-obligation variance is less than \$250.00 and the final liquidation transaction was coded as a final or complete payment, MCERRS class codes 1 or 3. Of 184 travel NULOs comprising the data population, only 52 (29%) were for an amount less than the value parameter. Automatic adjustment is a more effective internal control in the Travel subsystem because the additional condition in the M&S system - matching quantity fields - need not exist before automatic adjustment occurs.

In total, of the 671 NULOs recorded on the official accounting records of MCB, Camp Pendleton on June 30, 1995, approximately 55% were for amounts less than the value parameters assigned. Automatic adjustment did not occur, presumably because final payments were not coded as final payments in MCERRS

or because the quantity fields (obligation, expense, and liquidation) were not equal. The automatic adjustment feature was significantly less effective in the M&S subsystem by virtue of the requirement that quantity fields (obligation, expense, and liquidation) be in balance before automatic adjustment can occur. The strength of the automatic adjustment feature is less, by virtue of the conditions which must exist before it can be effective.

## **2. SABRS Exception Code E02**

SABRS will not allow a Fund Administrator to reduce the value of an obligation to an amount less than what is currently recorded as an expense (SABRS Exception Code E02). It is the expensing (Document Identifier Code XSE) of the transaction/obligation in the budgetary accounts, based upon the receipt of goods or services, that leads to recognition of the transaction as an accounts payable in the proprietary accounts. This internal control will prevent a Fund Administrator from erroneously reducing an obligation below the expensed amount (what is currently recorded as an accounts payable), an action that would lead to a NULO condition when liquidation of the obligation occurred. This internal control is, in practice, less effective than it would otherwise be by virtue of what is generally regarded as a current procedural weakness - failure of Fund Administrators to properly input expense transactions upon receipt of goods or services. This procedural weakness was acknowledged by the Fiscal Division in February, 1995. "It has been brought to our attention that the requirement to record receipts in SABRS is not being followed." [Ref. 17]

In conclusion, SABRS internal control features which would have prevented NULOs from occurring were dependent upon critical data elements that were either not input into SABRS or incompletely or incorrectly so. In addition, SABRS did not initially provide management reports which would have alerted financial managers to the existence of NULOs. Those reports that did exist and

which would have alerted managers to out-of-balance conditions, the Suspect Payment Report (M118), Liquidations Exception Report (M203), Adjustment Exception Listing Report (T155), and Government Travel Request Exception Listing Report (T151) were either not understood or underutilized. Lastly, financial management performance standards did not require performance reporting of either NULOs or UMDs, and UDO/ULO reduction goals may have had the unintended consequence of increasing cancellations of valid unliquidated obligations.



## **VI. SUMMARY, CONCLUSIONS & RECOMMENDATIONS**

### **A. SUMMARY**

From a historical perspective, NULOs are primarily the result of the decentralization of accounting responsibilities which occurred under SABRS. Controls which were effective when accounting responsibilities were consolidated in the AAAs/CFAOs were lost as accounting responsibilities were transferred down to the fund administrator level. New controls were not implemented to offset those that were lost. For lack of the requirement that source documents be submitted for all accounting transaction entries, the fundamental accounting requirement that all accounting entries be traceable to source documents lost some of its relevancy. Shortcut transactions, in the form of DIC "XRA" and "XSI" became a common means of adjusting and recording obligations.

The requirement to conduct quarterly and in some cases monthly validations of UDOs/ULO/OTOs may have led to cancellations of transactions which were "supply complete" but lacked a liquidation transaction. In this regard, obligations for which the liquidation was unmatched and GTRs for which liquidation lagged for a period of months were candidates for cancellation. When the UMD or GTR liquidation was finally posted to the record, a NULO was the result. For lack of a requirement that source documents be submitted as substantiation for adjustments, there was ostensibly little control over adjustments fund administrators might make.

SABRS internal controls might have proved effective in preventing NULOs but were dependent upon the correct input of critical data elements and the proper utilization of the exception reports highlighted in Chapter V. In the M&S subsystem the requirement that quantity fields match at each stage of the SABRS transaction processing cycle (obligation, expense, and liquidation) meant that transactions that might have been automatically adjusted were not. Edits which

would have precluded obligation adjustments to less than the expensed or accounts payable amount were less effective by virtue of procedural weaknesses known to exist. The exception reports which flagged NULOs as suspect payments were either not understood or not utilized. In general, financial management manuals and SOPs did not adequately address SABRS' internal control features or how accounting personnel were to use SABRS' reports to identify and correct NULOs.

SABRS provided little visibility of NULOs once the initial edits had failed to correct for the condition. NULO reports were subsequently developed, but it was only in 1995 that these reports become widely recognized and used. Performance reporting of financial management performance standards, likewise, provided little visibility of the issue and may have worked against early detection and correction.

## B. CONCLUSIONS

Due to its vast scale of operations, perspective is ultimately required when viewing financial problems within DoD. In the case of MCB, Camp Pendleton, NULOs as a percent its non-civilian labor O&M,MC budget authority never exceeded 2.1% during the fiscal years comprising the data sample, as follows:

FY	NULOs (\$000) (as of 06/30/95)	Non-Civilian Labor O&M Budget Authority	Percent
1990	207	\$45.99M	0%
1991	44,075	\$61.33M	.07%
1992	80,569	\$51.88M	.15%
1993	1,158,588	\$55.26M	2.09%
1994	1,237,978	\$63.63M	1.95%
1995	204,012	\$55.38M	.37%

Table 6-1. NULOs as a Percent of Non-Civilian Labor O&M Budget Authority



Inclusive of civilian labor, the percent falls to less than 1 percent. Congressional criticism of DoD financial management failures should be tempered with this insight. Also, there is little evidence that NULOs constitute overpayments. The disbursing controls that prevent overpayments are operative and effective. NIO continue a recent trend of DoD financial management failures followed by Congressional legislation mandating reform. Each financial management failure ultimately brings with it new legislation in the form of additional controls, compliance, and more detailed reporting requirements.

In the final analysis, however, the issue of NULOs is largely a case history in management control, how existing accounting procedures and controls are affected when new accounting procedures are introduced.

## **C. RECOMMENDATIONS**

### **1. Prevalidation**

It is the purpose of this thesis to recommend solutions for the elimination of NULOs in the O&M,MC appropriation. In fact, solutions have already been implemented as required by the "Grassley Amendment." The "On-Line Prevalidation of Payment to Unliquidated Obligation System" provides a "means of monitoring and ensuring that a disbursement is matched to a particular disbursement before a payment is made," [Ref. 53:p. 17-2] This system incorporates an on-line payment authorization request subsystem enabling Defense Accounting Offices to verify the accounting data of a proposed disbursement as well as the underlying obligation's unliquidated balance. A proposed disbursement which fails either of these two edits is placed into a suspense file for appropriate action. The system was officially "fielded" on July 7, 1995.

If previous management controls were ineffective at preventing, identifying, and correcting NULOs, "prevalidation" will serve as the control of last resort. The current statute requires validations of disbursements of \$1M or greater,

although Senator Grassley has indicated his willingness to seek a lower threshold if improvements are not noted. DFAS policy was published on May 30, 1995, requiring "prevalidation" of all vendor payments (contracts, purchase orders, delivery orders). TAD and personnel payments are not yet covered under the policy, "but [we] are actively continuing to explore all possibilities." [Ref. 54]

At the DAO, Camp Pendleton, implementation of the zero-variance policy has not resulted in a significant increase in workload. Proposed disbursements failing "prevalidation" as a percent of all disbursements, have fallen from a high of 43% when the policy was implemented in July to a current (December 1995) low of approximately 14%. According to the Officer In Charge, fund administrators are verifying the unliquidated balance of obligations to be charged prior to the submission of invoices for payment. Lost discounts and interest charges due to late payment, both of which are monitored and reportable items, have not shown an appreciable increase as a result of "prevalidation." In the opinion of the Officer In Charge, the additional workload requirements of "prevalidation" should be more than offset by the requirement to research and correct fewer UMDs. Fund Holders should likewise benefit from fewer NULOs to research and correct.

Notwithstanding the implementation of "prevalidation," the internal control weaknesses that led to the current situation still need to be addressed. To that end, a brief "lessons learned" in the form of recommendations is in order.

*a. Paramount Link Between Source Documents and Financial Transactions*

Accounting processes must preserve the existence of an accounting audit trail to an original source document. Document Identifier Codes, such as "XRA" undermine this link by allowing fund administrators to finalize active records and effect major adjustments to obligations without the requirement to conduct a detailed analysis or reconciliation of the transaction/obligation. Fund

administrators should have a better rationale for adjusting the value of an obligation than simply to reduce the balance of the record to the (then) liquidated amount. The authority to finalize obligations and delete them from a fund administrator's/ Fund Holder's records is a power that should not be exercised without some controls. Fund administrators should be restricted from inputting "XRA" transactions on active records for which a final liquidation transaction (MCERRS Class Code 1 or 3) has not been posted to the record. This additional control would preclude "XRA" adjustments to active records.

***b. Attack UMDs First***

Although an UMD may be the direct cause of a NULO, it more often is a precursor to a NULO due to the fund administrator's cancellation of the document's unliquidated balance. In the case of M&S NULOs, 24 percent had a previous record of one or more UMDs associated with the record and TAD NULOs were even more closely associated with UMDs (40%). Any efforts that lead to a reduction in UMDs or the timely correction of UMDs will reduce both the number and dollar value of NULOs.

The root problem of UMDs is an overly long accounting classification code. Any efforts taken to streamline the accounting classification code or to reduce the multiple reinput of the accounting classification code will lead to a reduction in the number of UMDs and consequently NULOs. Processes have improved and "single source entry" of accounting data is largely a reality in the Marine Corps through SABRS interfaces with BCAS and MCERRS. The Disbursing Supervisor at the DAO, Camp Pendleton is reporting that reinput of accounting data into MCERRS occurs less than 10 percent of the time. DoD is currently developing a standard accounting classification code and the expectation is that it will contain fewer data elements. Future disbursement systems will likely eliminate the requirement that portions of the accounting classification code unrelated to the

matching of disbursements to the underlying obligation not be required input fields. The inherent difficulty of having to account for funds at the fund level - appropriation, fiscal year, and subhead - is not an insignificant challenge, however. The General Ledger of MCB, Camp Pendleton is over 118 pages long. This level of specificity inevitably leads to posting errors. Precise and highly sophisticated accounting processes will be required to ensure the transaction processing cycle process is error-free.

*c. Understand the Consequences of Highly Specific Contracts*

The contracting process is the first step in the transaction processing cycle. Complexity introduced at this level, through the use of CLINs and SLINS and through the merging of fund administrator requirements into single contracts, forever affects the downstream disbursing and accounting processes that must account for transactions at the detail or document number level. Contracts are extensively subdivided into multiple detail obligations spanning different fund administrators and, in some cases, different commands.

It has been shown that NULOs are highly correlated with multiple document number contracts. The complexity of accounting for contracts subdivided into multiple detail obligations increases the likelihood of error at each stage in the transaction processing cycle - reservation, obligation, expense, and liquidation. The multiplicative effect of multiple document number contracts on transaction processing is significant. The DFAR, the automated contract writing programs used within DoD (BCAS in the case of the USMC), threat of litigation, and the audit oversight of contracting officials will always lead to greater specificity in contracts at the expense of the downstream processes that must eventually account for funds expended and resources consumed. A balance must be struck between the advantages of highly specific contracts and the additional workload that is required to properly account for them.

***d.     Reevaluate Performance Measurements***

Financial management performance standards create strong incentives for compliance but may bring with them unintended consequences. It is likely that some unliquidated obligations were canceled during the course of quarterly and monthly validations of UDOs/ULOs. This is not to suggest that the advantages of financial management performance standards outweigh the disadvantages in terms of unintended consequences that may or may not exist. It is merely to suggest that financial managers at all levels need to be cognizant of the ripple effects that performance standards and performance reporting have throughout organizations.

***e.     Require Closed Contracts Be Reconciled to the Detail Obligation Level***

Although the DFAR requires that contracts be reconciled to the final contract payment amount, this requirement exists at the contract level only. Within contracts, payments/liquidations can be misapplied to obligations and lead to ULOs and NULO. The means of reconciling detail obligations to final payment amounts occurs in a fragmented manner, in some cases individually across fund administrators, by means of the quarterly validation of UDOs/ULOs. The ultimate goal should be development of an automated contract reconciliation capability within SABRS.

***f.     Develop a SABRS - BCAS Interface that Flags Obligations Recorded for Less than the Contract Amount***

This capability would highlight instantly imbalances between obligations and contract amounts. In addition, contract obligations that are not automatically obligated through the SABRS - BCAS fiscal interface should be referred to Fund Holders for immediate correction.

***g.     Adopt Simplified Accounting Processes Where Able***

During World War II, DoD accounted for its financial transactions on a simplified cash basis. The adoption of accrual based accounting methods

coupled with the requirement to maintain a General Ledger that incorporates both budgetary and proprietary accounts greatly expanded the chart of accounts now in use throughout DoD. The requirements of Fund Accounting, that financial transactions be accounted for at the fund level (fiscal year, appropriation, and subhead) greatly expanded the number of accounts required to account and report the results of financial operations. Lastly, the demise of the "M" account doubled the number of fiscal years that must be accounted for from the current and two prior years to the current and five prior years.

Modified accrual accounting procedures should be adopted in some instances. SABRS recognizes labor obligations based upon the paid payroll and by doing so eliminates NULOs in the Labor Subsystem. TAD processing under SABRS requires recognition of the obligation, based upon travel cost estimates, when the TAD orders are issued. After the traveler's entitlement is known (paid) the obligation is adjusted to the actual payment amount. The travel obligation is expensed in thirty day increments beginning on the "proceed on or about date." It is a model system in terms of fund control and the allocation of the TAD costs to the proper period. TAD in the case of MCB, Camp Pendleton, however, is less than 1 percent of its non-civilian labor O&M,MC operating budget, while accounting for over 25 percent (in number) of its NULOs. Materiality may suggest that the accrual basis of accounting is not worth the extra administrative effort of reconciling TAD cost estimates/obligations to actual travel settlements. TAD is already being scrutinized as an area where cost savings can be realized by decreasing the administrative burden of computing and verifying travel entitlement. TAD should be looked upon as an area where cash-based accounting methods could be implemented on the grounds of materiality.

***h. Education***

SABRS is a sophisticated accounting system with now up to 17 subsystems and an extensive series of internal edits and management reports. SABRS is at the heart of financial management within the Marine Corps; and officers, warrant officers, staff noncommissioned officers, and junior enlisted personnel as well as our civilian counterparts must be well versed in its use.

**2. Postscript**

NULOs and UMDs in the O&M,MC appropriation have continued to show a downward trend over the past year, as follows (\$000,000): [Ref. 48]

	<b>DEC 94</b>	<b>JAN 95</b>	<b>MAR 95</b>	<b>JUN 95</b>	<b>OCT 95</b>
NULOs	\$ 536	578	347	234	\$195
UMDs	925	733	629	415	390
Total	\$1,461	1,311	976	649	\$585

**Table 6-2. Problem Disbursement Reduction (Dec 94 - Oct 95)**

It is expected that the DoD requirement that NULOs and UMDs be eliminated by October 1, 1996 will be met. Determined efforts on the part of Fund Holders to correct existing NULOs and UMDs as well as new processes in the form of "prevalidation" have proven to be a successful formula in the fight to eliminate problem disbursements.





## APPENDIX A. QUESTIONNAIRE

7 Nov 95

Subject: Causes of Negative Unliquidated Obligations in the Marine Corps' Operations and Maintenance Appropriation and Recommendations for their Elimination

Completed By: Mr. Leroy Dowdle, GM-15  
Head, Liaison & Tech Svcs Br

1. How would you assess the impact of the following issues on existence/magnitude of NULOs in the O&M account?

a. **Question.** Public Law 101-510, eliminating the "M" account, extended the active period of the O&M appropriation from the current and two prior years to the current and five prior years. How has the elimination of the "M" account and the requirement to account for appropriations over an extended period of time impacted NULOs in the O&M account?

**Answer.** P.L. 101-510 definitely has had an impact on the visibility of problem disbursements throughout the DoD. The "M" or merged account allowed fund account holders to accumulate their problem disbursements against surplus (unobligated) funds remaining in the account from prior lapsed fiscal years. With the elimination of the "M" account, visibility over more fiscal year problems resulted, five expired years versus the two expired years when the "M" account existed.

To prevent problem disbursements from being canceled with the appropriation against which the disbursements are recorded, the DoD Comptroller requires an obligation be posted for all problem disbursements prior to canceling the appropriation account.

In addition to finding sufficient funds in current fiscal authorizations to pay for valid obligations posted against canceled appropriation authorizations, fund managers are faced with the new DoD requirement on obligating NULO/UMDs for current and expired appropriations.

b. **Question.** The Prompt Payment Act requires payment of public invoices within 30 days of receipt. Has this requirement impacted NULOs in the O&M account?

**Answer.** The PPA impacts NULOs in the O&M as well as other appropriation accounts by accelerating in some instances the payment of valid vendor invoices that did not have sufficient accounting classification coding for recording purposes. As a means of eliminating this problem, all payments must be prevalidated by checking the accounting records for an obligation. Prevalidation of obligation records prior to payment of vendor invoices was Congressionally directed initially at \$5 million threshold beginning 1 July 1995 and at \$1 million beginning 1 October 1995. Additional reductions to the threshold is anticipated in the future. Note that DFAS-Columbus Center has been exempted temporarily from the \$1 million threshold due to vendor complaints of slow payments.

c. **Question.** NAS Audit 93-0085 documented a high percentage of invalid unliquidated obligations in the O&M account. Did the resulting emphasis on reducing unliquidated obligations impact, in any way, NULOs in the O&M account?

**Answer.** Yes., NAS Audit 93-0085 raised issues that caused the Marine Corps leadership to initiate action to highlight the need to conduct Unliquidated Obligation Reviews and correct problem disbursements recorded. Due to this early emphasis by Marine Corps senior managers, the effort to work problem disbursements, including NULOs, began much earlier than other Military Services.

2. The General Accounting Office and the DoD Inspector General have largely been credited with disclosing both the existence and magnitude of NULOs DoD-wide. Can you identify reasons why this issue was not highlighted internally?

**Answer.** I disagree. Although the GAO and DoD IG was instrumental in getting top level DoD management attention by disclosing the existence and magnitude of the NULO problem, the problem has existed for many years and is compounded by the lack of standard integrated financial systems supporting the Military Services and Components. Payments by other than the Military Service's own DFAS supporting finance network normally end up in the accounting records as either unmatched disbursements or NULOs. This is primarily the result of no edits to prevent data input errors or incompatible data elements from being reported in the accounting system. I agree that, until the NAS Audit report and DoD Comptroller policy on problem disbursements was issued, the Marine Corps had not considered the problem with NULOs or UMDs a high priority.

a. **Question.** Existing Performance Reporting Criteria; Quarterly Obligation Rate Goals, UDO Reduction Goals, Reversion Limitations, served to focus management's attention on these areas and away from other issues (e.g., unmatched disbursements and negative unliquidated obligations).

**Answer.** I agree, the level of staffing in the Marine Corps financial organizations prevent adequately addressing issues such as NULOs and UMDs. With the added emphasis of eliminating problem disbursements to prevent having to obligate them has added to the number of top priority efforts being made by existing staff. The extent to which this current can continue is unknown but informal comments from senior managers voice concern over the amount of time being spent to correct what are termed "accounting problems".

b. **Question.** No separate SABRS reporting of NULOs prior to creation of the M-118 existed. The primary M&S report addressing unliquidated orders (M-150) does not report NULO conditions.

**Answer.** I agree. The reports for NULOs and UMDs were established as a result of the conference held in January 1995 at MCCDC Quantico to discuss the NAS Audit Report and actions needed to support effective ULO reviews and NULO/UMD reduction.

c. **Question.** The Trial Balance Report (NAVCOMPT 2199) captures and records unmatched disbursements but does not report separately obligations in a NULO status. Did existing reporting mechanisms provide adequate visibility of the magnitude of NULOs existing at the Operating/SubOperating Budget level?

**Answer.** NULOs/UMDs are not visible at the Operating Budget or Suboperating Budget unless the overall fund authorization has been overexpended as a result of the NULO/UMD. NULOs are only at the recorded document level and UMDs are at an undistributed account level which does not match any document numbers recorded.

d. **Question.** Overall management belief that the status of prior year obligations should largely be looked at from a macro perspective; that is, if after completion of the transaction processing cycle recorded obligations do not exceed total authority the issues of invalid obligations and negative obligations should largely be looked upon as internal processing problems and less as Antideficiency Act issues.

**Answer.** The belief that prior year obligations can be viewed from a macro level is an invalid assumption that would soon prove to allow the fund holder incur a violation by overobligating or overexpending his fund authorization. The

detailed transactions recorded in the accounting systems cumulatively summarize to the total obligations and disbursements recorded at account or Operating Budget level. To manage at the higher Operating Budget level without also reviewing what is occurring at the transaction or document level, not necessarily by the account holder but at least by the account holders subordinate managers, would be similar to driving blindly in a snow storm whereas the car and driver are fine until they hit something. In both instances it would be better to have visibility over where you are before you get there, not after.

The appearance of liquidations against prior year fund authorizations require the same scrutiny as during fiscal years being currently obligated. Continual review of outstanding commitments and obligations as they may relate to undelivered orders or the resulting liability of the government for payment to contractors for delivered goods or services should continue throughout the cycle of a transaction, i.e., reservation, obligation, expense (receipt) and liquidation. Erroneous payments recorded as disbursements should be reviewed in a timely manner and obligated if valid or corrected to prevent over-expenditure of available authorized funds. Violations should be investigated if any overobligation or overexpenditure of the fund authorization occurs.

## APPENDIX B. M&S DATA SAMPLE

### ERROR CONDITION: FA-1

1. M933265023C735 - Facilities (Housing Maintenance): Fiscal year 95 contract for CAC 782F. Liquidations/payments (DSSN 5167, DOV 17365, dtd. 3/95) posted against this transaction included \$5.70 (cycle 5020) & \$58.14 (cycle 5024)). No reservation (XSR) or obligation was established (XSC). Obligation was established for \$5.70 transaction by way of DIC XSI, simultaneous reservation/obligation/expense. The \$58.14 liquidation had not previously been a recorded obligation. Fund administrator has corrected.

NULO: 58.14

Error Condition: FA-1

OC/SOC: 2607

2. M933265027A735 - Facilities (Housing Maintenance): Fiscal year 95 contract for CAC 782F. Payment (DSSN 5167, DOV 20206, dtd 4/95) was allocated to 228 listed document numbers. Fund Administrator reserved/obligated/expensed (1) item at a per unit charge of \$57.95, but receipted for 6: \$347.70 (\$57.95 \* 6). Fund administrator has corrected.

NULO: 289.75

Error Condition: FA-1

OC/SOC: 2607

3. M330092196C009 - AC/S, O&T: Fiscal year 92 document for property accounting code LT0893. Quantity ordered totalled (6). Fund administrator input simultaneous reservation/obligation/expense transaction (XSI) for payments:

<u>DSSN</u>	<u>Amount</u>
6167 .....	\$147.26
8558 .....	\$4386.42
8558 .....	\$1253.28
8558 .....	\$12168.62
Total .....	\$17808.32

Payments made by Port Hueneme (\$5562.81 & \$11435.00), with no corresponding adjustments by the fund administrator have resulted in NULO status of \$16997.81

NULO: 16,997.81

Error Condition: FA-1

OC/SOC: 26A0

4. M330054297LR02 - AC/S, Logistics: Fiscal year 95 DSSC requisition. Fund administrator input simultaneous reservation/obligation/expense transaction DIC of -42.00 and 407.00. Liquidations posted equalled: \$365 - DOV 17388; \$407 - DOV 20288).

NULO: 407.00

Error Condition: FA-1

OC/SOC: 26A0

5. M933263119H010 - Facilities (FMO - Ops): Fiscal year 93 contract for CAC 9270, Plant account PPCB16. Fund administrator input simultaneous reservation/obligation/expense transaction for \$3111.07. Total liquidation during FY93 was single payment of \$3247.02. Fiscal year 95 liquidations (cycle 5024) totalled (\$1.00 + \$4.20 + \$16.01 + \$1917.96 + \$43.02 + \$555.28 = \$2,537.47).

NULO: 2537.47

Error Condition: FA-1

OC/SOC: 2607

6. M9332631900001 - Facilities (FMO - Ops): Fiscal year 93 contract for CAC 6615. Fund administrator input simultaneous reservation/obligation/expense transaction for \$2100.00 + \$4800.46, cycles 4022 and 5023. Single liquidation was posted on 950519, cycle 5030, for \$13,800.92.

NULO: 6900.46

Error Condition: FA-1

OC/SOC: 2607

7. M933262254603Z - Facilities (MRP): Fiscal year 92 contract. Fund administrator did not reserve contract initially but input simultaneous reservation, obligation, expense transaction for liquidation \$1,671.89/DSSN 5167/DOV 04007) Subsequent liquidation of \$5532.00/DSSN 5167/DOV 05927/cycle 3046 was input into MCERRS citing FY93. The resulting UMD was corrected on DOV 8G008/DSSN 5617/cycle 5033.

NULO: 5532.00

Error Condition: FA-1

OC/SOC: 2607

8. M933264356604Z - Facilities (MRP): Fiscal year 95 contract for CAC EBLO. Fund administrator did not reserve or obligate transaction, but recorded XSI transaction (\$2463.50) Liquidations totalled \$4279.50.

NULO: 1816.00

Error Condition: FA-1

OC/SOC: 2607

9. M933265010645Z - Facilities (MRP): Fiscal year 95 contract. Fund administrator did not record reservation or obligation. Obligation was established by input of XSI transaction for \$73.68 (DSSN 5167, DOV 17903). Thereafter payment amount of \$605.87 (DSSN 5167, DOV 19194) resulted in NULO status of same amount.

NULO: 605.87

Error Condition: FA-1

OC/SOC: 2607

10. M933264281CARP - Facilities (MRP): Fiscal year 95 facilities maintenance contract for carpet. Fund administrator input two XSI transactions totalling \$2460 (\$2200. & \$260).

NULO: 1288.43

Error Condition: FA-1

OC/SOC: 2514

11. M933264285CARP - Facilities (MRP): Fiscal year 95 maintenance contract for carpet. Fund administrator did not reserve or obligate, recording only a single XSI for \$298.00 (cycle 5027).

NULO: 1798.50

Error Condition: FA-1

OC/SOC: 2514

Item Count: 11

Total Dollar Amount: \$38,231.43

**ERROR CONDITION: FA-1A**

12. M9330050605091 - Moralle, Welfare, Recreation: Fiscal year 95 open purchase contract for Special Services equipment. Fund administrator reserved \$3.78. Obligation and expense was established for \$4.44 (B4X from MCF). Payment of \$21,866.50 was allocated to (9) document numbers, \$78.91 to this document number. Fund Administrator subsequently accepted the charge and adjusted the value of the document to equal the payment amount.

NULO: 74.47

Error Condition: FA-1A

OC/SOC: 2607

13. M338005065015B - Assault Amphibian School: Fiscal year 95 open purchase contract submitted to RIC ZBR. Fund administrator established reservation and obligation of \$48.60 (quantity of 4 \* \$12.15 unit price, NSN 494001D018877). Expensed \$48.60 (B4X - MCF). Liquidation totalled \$167.04 (DSSN 5167/DOV 21553).

NULO: 118.44

Error Condition: FA-1A

OC/SOC: 2607

14. M330022303E001 - Fund Administrator 2B: Fiscal year 93 contract totalling \$2000 input on cycle 3005. On cycle 3016 fund administrator receipted and expensed document for \$3965.75. Payment for \$3965.75 posted as a partial payment on cycle 5023, resulted in current NULO status of \$1965.75.

NULO: 1965.75

Error Condition: FA-1A

OC/SOC: 25B8

15. M9332642740025 - Facilities (MRP): Fiscal year 94 facilities maintenance contract. Fund administrator obligated for \$21,630 on cycle 5016 and reversed the entry on cycle 5021. Total obligation input as follows:

<u>Amount</u>	<u>Cycle</u>
\$1810	5002
\$1560	5014
<u>\$1350</u>	5027

\$4720

Liquidations totalled \$5,769.65.

NULO: 1049.65

Error Condition: FA-1A

OC/SOC: 2514

16. M9332642740056 - Facilities (MRP): Fiscal year 95 facilities maintenance contract for liquid fuel dispensing equipment. Fund administrator obligated contract for \$2700 on cycle 5015. Fund administrator XRA'd document on cycle 5022, increasing obligation amount by \$6070, based upon total liquidations through cycle 5022 of \$8770. Fund administrator subsequently increased obligation by \$5000 on cycle 5027, increasing total obligation to \$13770. Total liquidations through June 30th totalled \$15379.92; resulting in NULO status of \$1609.92.



NULO: 1609.92  
Error Condition: FA-1A

XRA: +6070  
OC/SOC: 2514

Item Count: 5  
Total Dollar Amount: \$4,818.23

**ERROR CONDITION: FA-2**

17. M9330032505234 - Moralle, Welfare, Recreation: Fiscal Year 93 open purchase contract submitted for Special Services equipment. Payment totalling \$82,397.72, (DSSN 5167, DOV 09271, dtd 940218) of which \$81,325.36 was allocated to this document number (\$7,408.00 & \$73,917.36), both of which were coded as final payments. Payment of \$3,401.03 (DSSN 5167, DOV 21333, dtd 950519) included \$1,851.32, coded as a supplemental payment (class code 6) to this obligation/document.

NULO: 1851.32  
Error Condition: FA-2

OC/SOC: 2607

18. M338004244014B - Assault Amphibian School: Fiscal year 94 GSA supply requisition for (3) items, National Stock Number 5120001469627. Fund administrator established reservation and obligations at a per unit price of \$1.00. Status confirmation from GSA advised of actual per unit price of \$31.18. Total liquidation equalled \$93.54 (31.18 \* 3).

NULO: 90.54  
Error Condition: FA-2

OC/SOC: 26A0

19. M3380094RC40001 - Assault Amphibian School: Fiscal year 94 open purchase contract. Fund administrator established obligation at \$70,000 on cycle 4045. Partial payments were divided between DSSN's 5159, 8558, 8565. Payments made by DSSN 8558 were coded as Transaction Type 6W disbursements and posted during 6/95.

NULO: 2757.90  
Error Condition: FA-2

OC/SOC: 2518

20. M3300223641150 - Fund Administrator 2B: Fiscal year 93 open purchase contract. Fund administrator established obligation at \$18.97 (8 units \* per unit cost of \$2.37). FA1 advised of unit price of \$92.75, PIIN of E9539. Total liquidation of \$185.50 (2 units @ \$92.75/each). Fund administrator did not adjust obligation for \$92.75 unit price.

NULO: 145.26

Error Condition: FA-2

OC/SOC: 2607

21. M914264284002F - Child Development Center: Procurement of printing services for the AC/S, Manpower. Document numbers listed on the contract totalled,

M914264284002F .....	\$6,000
M914264284102F .....	\$4,000
Total .....	\$10,000

By the end of the 2nd quarter (9) payments totalling \$12,282.07 had been charged to this document number, (\$6000.00 - \$12,282.07). No action had been taken by the fund administrator to increase the dollar value of funds committed to this contract.

NULO: 6014.85

Error Condition: FA-2

OC/SOC: 2410

22. M914264284102F - Child Development Center: Insufficient funds obligated against this document number. Contract was obligated for 4,000 on cycle 5005. By cycle 5020, payments totalled \$5607. Fund administrator XRA'd document on cycle 5022, increasing funds obligated by \$1607. By cycle 5024, additional payments totalling \$6,675.07 were posted against the document number, resulting in current NULO balance of \$6,675.07.

NULO: 6675.07

Error Condition: FA-2

XRA: +1607

OC/SOC: 2410

23. M330044033533H - AC/S, O&T: Fiscal year 94 DSSC requisition of NSN 5120013351496. Fund administrator reserved \$12.54, based upon quantity of (2) ordered at a per unit price of \$6.27. DOV 13436, DSSN 5167 posted (4) liquidations against this document under (4) different cost codes:

42092839500Q .....	\$359.75
42092809500Q .....	\$725.00
42092829500Q .....	\$6138.77
42092719500Q .....	\$6437.94
Total	\$13661.46

Fund administrator subsequently adjusted obligation to the liquidated amount.

NULO: 13648.92  
Error Condition: FA-2

OC/SOC: 26A0

24. M330044277INOP - AC/S, O&T: document represents interest charges that accrue for credit card purchases.

NULO: 103.54  
Error Condition: FA-2

OC/SOC: 26Z1

25. M330094264469H - AC/S, O&T: Fiscal year 94 for Fund Administrator reserved and obligated \$192. Multiple liquidations from (DSSN 5167, DOV 16460: 92.00 + 142.80 + 1623.83 + 2400.75) totalled \$4259.38. Document was corrected for undistributed-subhead-indicator of 2.

NULO: 4067.38  
Error Condition: FA-2

OC/SOC: 26A0

26. M933404031111A - Motor Transport: Fiscal year 94 DSSC requisition of (12), NSN 7310003641438.

<u>DIC</u>	<u>Cycle</u>	<u>Amount</u>
AOA	4019	(12 * \$639.98 = \$7679.76)
AE2	4038	(12 * \$744.19 = \$8930.28)
B6X	4038	(12 * \$992.80 = \$11913.60)
FA1	5032	(12 * \$992.80 = \$11913.60)

Fund administrator reserved/obligated \$7,679.76. FA1 shipping status advised of per unit cost of \$992.80 (B6X - MCF), total of \$11,913.60.

NULO: 4233.84  
Error Condition: FA-2

OC/SOC: 26A0

27. M933282275WR02 - Motor Transport: Fiscal year 93 inter-governmental work request for rent of PWC vehicles funded under a NAVCOMPT 2275. Work Request was billed for services provided on a monthly basis.

October: \$1712.00	January: \$1200.00	April: \$1312.00
November: \$1200.00	February: \$1512.00	May: \$1712.00
December: \$2681.08	March: \$2023.11	June: \$1712.00

July:	\$2400.00
Aug:	\$1200.00
Sept:	\$2160.89

Work Request estimate of services and funds obligated totalled \$18,144. Transaction was XRA'd on cycle 4033, increasing funds obligated to \$18,664.19 - payment/liquidations processed through August. Liquidations posted as register 36 corrections on cycle 4004. Final liquidation (\$2160.89) was posted on cycle 5024 also as a register 36 correction notice from DSSN 5242, San Diego.

NULO: 2160.89 XRA: +520.19  
Error Condition: FA-2 OC/SOC: 25C7

28. M9332632841914 - FA 6C: Fiscal year 94 OC/SOC 2514 - asphalt for the USNH. Fund administrator initially obligated document for \$97,000. Fund administrator input additional XSI transaction for an additional \$2000 on cycle 5006. However, FA XRA'd document after payment of \$96,642.92 (DSSN 5167, DOV 13697, cycle 5013). Thereafter, payment (class code 02), DSSN 5167, DOV 14502, cycle 5034) resulted in NULO status of same amount.

NULO: 1989.40 XRA: -2357.08  
Error Condition: FA-2 OC/SOC: 2514

29. M0068132744002 - Facilities: Fiscal year 94 facilities maintenance contract. Obligation was established as follows:

	<u>Amount</u>	<u>Cycle</u>
	5611.00	4037
	2500.00	4025
	8163.00	4051
	<210.00>	4028
	125000.00	4003
	13991.00	4036
	32236.00	4040
Total	187291.00	

Total liquidations through 30 June, 1995 totalled \$198,884.00, resulting in NULO status of \$11,593.00.

NULO: 11593.00  
Error Condition: FA-2 OC/SOC: 2514

30. M332255033805H - Facilities: Fiscal year 95 contract. Fund administrator recorded obligation for \$56.10 and expensed the same. Payment of \$389.08 (DSSN 5167, DOV 19940) resulted in NULO status of \$332.98.

NULO: 332.98

Error Condition: FA-2

OC/SOC: 2607

31. M0068122743071 - Facilities: Fiscal year 93 facilities maintenance contract for battery storage, Margarita Area. Obligation of \$31,702.00 was input into SABRS on cycle 3042, XRA'd on cycle 3050, and subsequently reestablished on cycle 3051 for \$31,702.00. Total liquidations through June 30, 1995 totalled \$34,708.00, resulting in NULO status of \$3006.00.

NULO: 3006.00

XRA: 0

Error Condition: FA-2

OC/SOC: 2514

32. M0068132744025 - Facilities: Fiscal year 1994 MRP contract. Obligation entries were input as follows:

<u>OBLIGATION</u>		<u>LIQUIDATION</u>	
Amount	Cycle	Amount	Cycle
250,000	4021	228,111.95	4049
30,120	4027	978,696.05	4049
		56,526.00	5032
Total 280,120		1,206,808.00	

Transaction was XRA'd on cycle 5020, increasing obligation. Cycle 4049 liquidations totalling 1,206,808.00. Subsequent liquidation (DSSN 8352, DOV 21303, cycle 5032) of \$56,526 resulted in NULO status of same amount on 30 June, 1995.

NULO: 56526.00

XRA: +926,688

Error Condition: FA-2

OC/SOC: 2514

33. M0068132744053 - Facilities: Document was established as a reservation for \$100,000 on cycle 4033 and an obligation of \$85,034 on cycle 4049. liquidations totalling:

	<u>Amount</u>	<u>DSSN</u>	<u>Cycle</u>
	96132.00	5167	5022
	17061.80	8352	5021
	25592.70	8352	5023
Total	138,786.50		

resulted in NULO status of \$53,751.70 on 30 June, 1995.

NULO: 53752.50

Error Condition: FA-2

OC/SOC: 2514

34. M0068142745025 - Facilities: Fiscal year 1995 facilities maintenance contract for construction and repair of Rappel Towers. Obligation was established on cycle 5014 for \$23,691. Total liquidations through 30 June, 1995 totalled \$26,989, resulting in NULO status of \$3,298 on that date.

NULO: 3298.00

Error Condition: FA-2

OC/SOC: 2514

35. M0068142745502 - Facilities: Fiscal year 1995 facilities maintenance contract. Obligation was established on cycle 5009 for \$30,000. Total liquidations through June 30, 1995 totalled \$31,806.41, resulting in NULO status of \$1,806.41 on that date.

NULO: 1806.41

Error Condition: FA-2

OC/SOC: 2514

Item Count: 19

Total Dollar Amount: \$174,053.80

#### **ERROR CONDITION: FA-3**

36. M933244279HSGG - Facilities (Housing): Fiscal year 95 for OC/SOC 2331 - natural gas for Family Housing. Funds obligated through 2nd quarter totalled 1,356,276.54, while total payments totalled 1,333,073.21.

<u>Funds Obligated</u>	<u>Cycle</u>	<u>Invoices Paid</u>
157,645.64	5016	18,292.91
200,000.00	5017	37,694.24
174,171.61	5020	36,855.12
400,000.00	5022	20,419.50
144,910.08	5023	11,301.80
150,887.79	5025	4,497.34
<u>128,661.42</u>	5033	101,454.40
		9,305.93
\$1,356,276.54		105,977.57
		9,991.24
		247,873.56
		210,997.41
		42,700.55
		25,713.96
		132,965.19
		7,118.72
		128,661.42
		6,733.52
		28,079.86
		26,341.48
		113,910.96
		<u>6,186.53</u>
		\$1,333,073.21

However, the fund administrator input an XRA transaction on cycle 5022, reducing funds obligated by \$74,455.68 (931,817.25 - 857,361.57). Against payments totalling \$1,333,073.21, total obligations totalled only \$1,281,820.86 (1,356,276.54 - 74,455.68) resulting in a negative condition of \$51,252.35 on June 30, 1995.

NULO: 51,252.35  
Error Condition: FA-3

XRA: -74,455.68  
OC/SOC: 2331

37. M9332640240007 - Facilities (FMO - Ops): Fiscal year 94 contract for General Services Shop Overhead. Fund administrator obligated document for \$7,770. Fund administrator XRA'd document after FY94 payment of \$4410 (DSSN 5167/DOV 20187). FY95 payment of \$3360 (DSSN 5167/DOV 22296) resulted in NULO status of same amount.

NULO: 3360.00  
Error Condition: FA-3

XRA: -3360.00  
OC/SOC: 2607

38. M9332632740013 - Facilities (MRP): Fiscal year 94 facilities maintenance contract for CAC EBFO. Fund administrator initially obligated:

<u>Obligation Amount</u>	<u>Cycle</u>	<u>Payment</u>	<u>Cycle</u>
\$2000	4017	\$1401	4022
<\$1401>	4018	\$2121	5005
\$2000	4008	\$1041	5024
\$5210	4041	\$1041	4032
<\$9>	4043		
\$7800		\$5604	

Fund administrator XRA'd transaction on cycle 5018. Liquidation of \$1041.00 (DSSN 5167, DOV 22280, cycle 5024) resulted in NULO status of same amount.

NULO: 1041.00 XRA: -3237.00  
 Error Condition: FA-3 OC/SOC: 2514

39. M9332643260001 - Facilities (MRP): Fiscal year 95 open purchase contract for recurring maintenance. Fund administrator initially established reservation at \$1000, and thereafter established obligation with two entries totalling \$2450. Fund administrator input XRA transaction on cycle 5027 after payment of \$835 (DSSN 5167, DOV 19845), reducing obligation to the payment amount. Subsequent liquidation of \$1450 (DSSN 5167, DOV 21423) resulted in NULO status of same amount.

NULO: 5304.16 XRA: -1615  
 Error Condition: FA-3 OC/SOC: 2607

Item Count: 4  
 Total Dollar Amount: \$60,957.51

#### ERROR CONDITION: FA-4

40. M0068112742015 - Facilities: Fiscal year 92 facilities maintenance contract for CAC EBLO. NULO status is as a result of register 36 correction notice:

	<u>Amount</u>	<u>Cycle</u>
	\$10633.15	
	\$14788.68	
Total:	\$25421.83	

NULO: 25421.83  
 Error Condition: FA-4 OC/SOC: 2514



41. M332503236347V - School of Infantry: Fiscal year 93 open purchase contract. Fund administrator XRA'd transaction on cycle 5017 reducing obligation to zero. Fund administrator XSI'd \$85.03 on cycle 5020 and DSSN 5101 posted payment of \$85.03 (DOV 81233) on cycle 5021. On cycle 5030 Defense Accounting Officer personnel posted two unmatched disbursements, UNDISTRB-SUBHD-INDIC of 6, (Naval Regional Finance Center, DSSN 5101, DOV 81233) to this document (\$13.20 & \$662.28).

NULO: 675.48  
Error Condition: FA-4

XRA: unknown  
OC/SOC: 2607

42. M914262184181H - Manpower & Human Resources: Fiscal Year 92 (OC/SOC 25B8) procurement of educational material for the Child Care Center. Document was reactivated from SABRS history on cycle 5003 to post a payment totalling \$530.00. Payment was posted under incorrect subhead and corrected on cycle 5034. Fund administrator XRA'd transaction sending it to SABRS history; the Accounting Office reactivated the document and posted the liquidation.

NULO: 530.00  
Error Condition: FA-4

XRA: 0  
OC/SOC: 25B8

43. M914262241169H - Child Development Center: Fiscal Year 92 document (OC/SOC 25B8) for support costs of the Child Care Center. Document was recalled from the history file to post \$44.95 liquidation. Procurement reserved for \$171.80 on cycle 2055, and obligated for \$179.80 on cycle 2057. Total liquidations against this document (\$44.95 DSSN 5167/03715) and (\$134.85 DSSN 5167/03807), posting against this document number with an UNDISTRB-SUBHD-INDICOF of 6. Document was XRA'd on cycle 2055 after posting of initial payment, resulting in NULO of \$134.85. Document was XRA'd a total of five times.

NULO: 134.85  
Error Condition: FA-4

XRA: +44.95  
OC/SOC: 25B8

44. M933401312912A - Food Service: Fiscal year 92 (OC/SOC 31A0) requisition for mess hall labor, supplies, and services. Transaction was settled via interfund transfer by DSSN 6187, DOV 06247 during 1/93, based upon receipt date of 920831. Naval Regional Finance Center, Washington (DSSN 5101) processed a register 36 correction on 950609 for \$794.04 (DOV 48318) triggering NULO status at the end of the 2nd quarter. No obligation data is available on this aged transaction.

NULO: 794.04

Error Condition: FA-4

OC/SOC: 31A0

45. M330061242743H - Facilities: Fiscal year 1991 250Q requisition. Fund administrator XRA'd transaction after payment of \$1225 (DSSN 6187, DOV 22574) on cycle 3022. On 950519, DOV 8G342, DSSN 5167 corrected misposting of DOV 02884, DSSN 5167 - an undistributed disbursement (\$1725) incorrectly input into MCERRS as a FY92 document (UNDISTRB-SUBHEAD-INDIC 6).

NULO: 1725.00

Error Condition: FA-4/DISB-4

XRA: +1225

OC/SOC:

46. M933262254604Z - Facilities (FMO - Ops): Fiscal year 92 contract. Fund administrator reserved/obligated/expensed \$230.08 and adjusted amount to reflect single liquidation of \$227.51. Defense Accounting Office submitted register 36 correction on 950609 for \$9144.00 (DOV 8G009). Original voucher 05927/DSSN 5167 misposted disbursement to a FY93 document number.

NULO: 9144.00

Error Condition: FA-4/DISB-4

OC/SOC: 2607

47. M00681112742016 - Facilities: Fiscal year 92 facilities maintenance contract for recurring maintenance of compressed air systems. Contract was obligated for \$8000, cycles 2027 and 2044. NULO status is a result of a register 36 correction notice - \$1045 (DSSN 8352, DOV 61108, cycle 5026).

NULO: 1045.00

Error Condition: FA-4/DISB-4

OC/SOC: 2514

48. M0068122743H02 - Facilities: Fiscal year 93 facilities maintenance contract for design and construction. Transaction was XRA'd on cycle 5026, reducing funds obligated to liquidated amount, \$127,471.15. Liquidation posting on cycle 5027 has resulted in NULO status - \$2401 (DSSN 5167, DOV 23792, cycle 5027).

NULO: 2401.00

Error Condition: FA-4/DISB-4

XRA: n/a

OC/SOC: 2514

Item Count: 9

Total Dollar Amount: \$41,871.20

**ERROR CONDITION: FA-6**

49. M330063275P002 - Facilities: Fiscal year 1994 contract for services. Fund administrator reserved:

<u>Amount</u>	<u>ACRN</u>	<u>Cycle</u>
\$73,492	AB	4049
\$176,208	AB	4049
\$249,700		

and obligated same amount on cycle 4052. On cycle 4042 fund administrator input obligation of \$44,000 under ACRN AA. Liquidations posting under ACRN AA total \$86,081.27, as follows:

<u>Cycle</u>	<u>DOV</u>	<u>Amount</u>
5021	18278	\$19,968.41
5021	18279	\$4,817.62
5025	20470	\$25,667.25
	20471	\$32,639.99
	20472	\$2,652.08
		\$86,081.27

NULO: 42081.27

Error Condition: FA-6

OC/SOC: 25B8

Item Count: 1

Total Dollar Amount: \$42,081.27

**ERROR CONDITION: DISB-1**

50. M9332632744128 - Facilities (FMO - Ops): Fiscal year 94 service contract for refuse disposal. Obligation entries input by Fund Administrator as follows:

<u>Amount</u>	<u>Cycle</u>	<u>DIC</u>
\$100,099.00	4033	XSI
\$1,109.50	4016	XSI
\$100,099.00	4041	XSI
\$200,200.00		XSC
<u>\$8,142.25</u>		XSC

Total: \$409,649.75

Total liquidations through 95/06/30 totalled \$422,195.67. Voucher 21521 (DSSN 5167) was misposted - \$62,796.45 vice 32,615.02 - and corrected.

NULO: 12545.92

Error Condition: DISB-1

OC/SOC: 25B8

51. M933265060700Z - Facilities (FMO - Ops): Fiscal year 95 contract for Entomological Services. Fund administrator did not reserve or obligate. Fund administrator ran simultaneous reservation/obligation/expense transaction for \$2,442.54. Payment amount of \$2,380.78 was misposted and subsequently reversed.

NULO: 2284.31

Error Condition: DISB-1

OC/SOC: 2607

Item Count: 2

Total Dollar Amount: \$14,830.23

#### ERROR CONDITION: DISB-2

52. M338005065022B - Assault Amphibian School: Fiscal year 95 open purchase contract. Fund administrator established reservation and obligation at \$15.34 (quantity of 2 \* \$7.67 unit price, NSN 494001D016176). Fund Administrator receipted/expensed \$15.34, B4X - MCF; RIC from E31/ZBR. Liquidation totalled \$56.00 (DSSN 5167/DOV 21533).

NULO: 40.66

Error Condition: DISB-2

OC/SOC: 2607

53. M338005065024B - Assault Amphibian School: Fiscal year 95 open purchase contract. Fund administrator established reservation and contract at \$6.32 (quantity of 4 \* \$1.58 unit price, NSN 494001D018879). Fund Administrator expensed \$6.32 (B4X - MCF; RIC fm E31/ZBR). Liquidation totalled \$66.30

(DSSN 5167/DOV 21553). \$6.32 charges were posted to document numbers: M338005065021B & M338005065023B.

NULO: 59.98

Error Condition: DISB-2

OC/SOC: 2607

54. M0068132744080 - Facilities: Fiscal year 1994 facilities maintenance contract for renovation of Bldg 22105. Fund Administrator reserved and obligated document for \$403,300 on cycles 4048 and 4051 respectively. Total liquidations through 30 June, 1995 totalled \$406,421.00 (cycles 5011 through 5027) and NULO status of \$3,121.00.

NULO: 3121.00

Error Condition: DISB-2

OC/SOC: 2514

55. M0068132744083 - Facilities: Fiscal year 1994 facilities maintenance contract for EZGO. Fund Administrator established reservation (cycle 4049) and obligation (cycle 4051) for \$8900.00. Liquidations totalling:

<u>Amount</u>	<u>DSSN</u>	<u>DOV</u>	<u>Cycle</u>
204710.03	5167	18928	5022
1314.27	5167	21636	5030
17.86	5167	24655	5035

Liquidation of \$204,710.03 should have been applied to document number M0068132744082, with \$1000.00 to be applied to this document number. Both document numbers fall under contract N68711-93-C-1975. Correct balance on this document should be \$6,567.87, which was fully liquidated on cycle 5039 (DSSN 5167, DOV 26555).

NULO: 197142.16

Error Condition: DISB-2

OC/SOC: 2514

Item Count: 4

Total Dollar Amount: \$200,363.80

Total: \$577,237.47



## APPENDIX C. TRAVEL DATA SAMPLE

### ERROR CONDITION: FA-2T

1. M0068193TOE0004. FY93 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	1060.00	2232.00	0	0	3292.00
Liquidation:	2082.60	2232.00	0	0	4314.60
Total:	<1022.60>	0	0	0	<1022.60>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>	<u>Voucher</u>
4029	5159	1740.00	GTR liquidation	G4080
4037	5159	2232.00	GTR liquidation	J8793
3032	6187	320.00	2D payment	64700
	6798	22.60		07522
4045	6798	22.60	2D payment	4G082
4044	6798	<22.60>	2D payment	4G082

These FY93 orders had an estimated completion date of 92/11/19. GTR liquidations posted approximately April, 1994. The value of the obligation appears to have been computed as follows:

2232.00	GTR
740.00	GTR (1740.00 - 1000.00)
320.00	Final Settlement Amount
3292.00	Total Obligation

Obligation is understated by what appears to have been a deobligation of \$1000 from the GTR and miscellaneous \$22.60 payment by DSSN 6798 which posted late to the record.

NULO: 1022.60  
Error Condition: FA-3T

2. M0068195TOC0902. FY94 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	907.84	0	0	231.16	1139.00
Liquidation:	n/a	0	0	n/a	2605.00
Total:	n/a	0	0	n/a	<1466.00>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>	<u>Voucher</u>
5030	6187	1466.00	2D Payment/liquidation	69805
5030	6187	1139.00	2D Liquidation, ACRN AB	69805
5038	6187	1139.00	2D Payment/liquidation	40716

It appears an advance of \$1139.00 was authorized and taken. The settlement amount, less advance, was \$1466.00. Total liquidations total \$2605.00. Recoupment of the advance was erroneously coded as a "2D" payment under the wrong ACRN. The original advance was miscoded as a "2D" payment. Total entitlement appears to be \$2605.

NULO: 1466.00  
Error Condition: FA-2T/DISB-4T

3. M0068195TOC1199. FY95 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	145.00	0	239.00	0	384.00
Liquidation:	515.83	0	850.22	0	1366.05
Total:	<370.83>	0	<611.22>	0	<982.05>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
5035	6187	1366.05	2D payment/liquidation

NULO: 982.05  
Error Condition: FA-2T



ERROR CONDITION: FA-3T

4. M0068194TOO0275. FY94 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	126.49	0	66.06	24.17	216.72
Liquidation:	409.29	0	213.76	78.21	701.26
Total:	<282.80>	0	<147.70>	<54.04>	<484.54>

GTR travel liquidation posted on cycle 5016. The proceed-on-or-about date was 93/11/04. Liquidation date was approximately 95/01/30.

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
4007	6187	216.72	2D settlement
5016	5159	484.54	GTR liquidation

Although a GTR liquidation exists no corresponding GTR obligation exists.

NULO: 484.54  
Error Condition: FA-3T

5. M0068193TOE0321. FY93 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	489.15	2380.00	0	242.88	3112.03
Liquidation:	1949.86	2380.00	0	968.17	5298.03
Total:	<1460.71>	0	0	<725.29>	<2186.00>

Travel obligation had multiple payments and corrections processed against it, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
3010	6133	610.00	Tvl. Advance (ACRN - AB)
3010	6133	350.00	Tvl. Advance (ACRN - AB)
3018	6187	732.03	Tvl. Settlement (ACRN - AA)
3018	6187	<960.00>	Tvl. Advance Recoupment (ACRN-AA)
4040	5159	2186.00	GTR Liquidation (ACRN - AA)
4040	5159	2186.00	GTR liquidation under Subhead 2720
4040	5159	<2186.00>	Reversal of erroneous Subhead posting
5033	5159	1190.00	GTR liquidation under Subhead 2720
5033	5159	<1190.00>	Reversal of erroneous Subhead posting
5033	5159	1190.00	GTR liquidation under Subhead 2780
5033	5159	1190.00	GTR liquidation under Subhead 2780

The scenario that best fits this pattern of entries is follows. Total liquidations posted under the correct obligation - Subhead 2780, ACRN AA - totalled \$2918.03 (\$732.03 + \$2186.00). These liquidations were applied to the per diem and other expense category of the transaction;  $1949.86 + \$968.17 = 2918.03$ , as the GTR obligation had either not been recorded or had been deobligated. The FA adjusted the obligated amounts to reflect a zero-balance travel record.

On cycle 5033 a previously undistributed disbursement was posted to this record under the wrong Subhead (2720), subsequently reversed. Duplicate liquidations were posted (1190 + 1190) and GTR obligation was increased by the same amount. At the same time, the P/D and Other expense categories were reduced by 2186.00, for a net increase to the obligation of \$194. Against an additional liquidation of \$2380, an upward adjustment of the obligation of \$194 resulted in a NULO of \$2186.

In total GTR liquidations totalling \$4566.00 were liquidated against this record. The settled travel voucher (DSSN/DOV 56833)

NULO: \$2186.00

Error Conditions: FA-3T/DISB-4T

#### ERROR CONDITION: FA-4T

6. M0068194TOE0036. FY94 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	126.18	0	0	0	126.18
Liquidation:	738.65	0	0	0	738.65
Total:	<612.47>	0	0	0	<612.47>

Travel obligation had multiple payments and corrections processed against it, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
4008	6187	126.18	Travel settlement, 27MO , ACRN AA
4010	6187	542.32	Travel settlement, Subhead 27MO, AA
4011	6187	70.15	Travel settlement, Subhead 27MO, AA
5001	6187	635.00	Travel Adv. Corr, Subhead 27MO, AA
5001	6187	<635.00>	Tvl Adv Corr, Subhead 2780, AA
5001	6187	<635.00>	Tvl Adv Recoup, Subd 2780, ACRN AB
5001	6187	635.00	Travel Adv Corr - Subhd 27MO, ACRN AA
5004	6187	635.00	Travel Adv Corr - Subhd 27MO, ACRN AA
5004	6187	<635.00>	Correction of Tvl Adv (27MO), ACRN AB

This record contains multiple corrections. The current balance of the travel advance is as follows:

<u>Voucher</u>	<u>27MO/AA</u>	<u>27MO/AB</u>	<u>2780/AA</u>	<u>2780/AB</u>
38022			635.00	
49894				<635.00>
4G216			<635.00>	
4G216	635.00			
4G217	635.00			
4G217		<635.00>		
Total	1270.00	<635.00>	0	<635.00>

The accounting record still shows a travel advance to the servicemember of \$1270.00.

NULO: 612.47  
Error Condition: FA-4T/FA-2T

7. M0068193TOC1206. FY93 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	734.13	465.79	335.87	0	1535.79
Liquidation:	1532.34	465.79	701.06	0	2699.19
Total:	<798.21>	0	<365.19>	0	<1163.40>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
3036	6795	<1070.00>	Tvl Advance Recoupment
3036	6795	1163.40	2D settlement
3042	5159	465.79	GTR liquidation - OC/SOC 2136
5038	6795	1070.00	2D payment

It appears the total entitlement of this set on travel orders was \$2699.19 (\$1070.00 + 465.79 + 1163.40). The total obligation is only \$1535.79, leaving a NULO of 1163.40. It appears the Fund Administrator obligated or adjusted the obligation to equal the value of the GTR and the amount of the travel advance. The NULO is equal to the settlement amount of \$1163.40, which, when a correction of the erroneous posting of the cycle 5038 1070.00 advance will be reduced to \$93.40.

NULO: 1163.40  
Error Condition: FA-4T/FA-2T

8. M0068193TOC1207. FY93 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	734.01	495.26	15.99	0	1245.26
Liquidation:	1774.35	495.26	38.65	0	2308.26
Total:	<1040.34>	0	<22.66>	0	<1063.00>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
3040	6795	1063.00	2D payment/liquidation
3040	6795	<750.00>	Tvl Advance Recoupment
3042	5159	495.26	GTR liquidation, OC/SOC 2136
5038	6795	750.00	2D payment/liquidation

As in the previous case, it appears the total entitlement on this set of travel orders was \$2308.26 (\$1063.00 + 495.26 + 750.00). The total obligation is only \$1245.26, leaving a NULO of 1063.00. It appears the Fund Administrator obligated or adjusted the obligation to equal the value of the GTR and the amount of the travel advance. The NULO is equal to the settlement amount of \$1063.00, which, when the cycle 5038 \$750.00 advance is corrected will be reduced to \$313.00.

NULO: 1063.00

Error Condition: FA-4T/FA-2T

#### ERROR CONDITION: FA-5T

9. M0068194TOC0979. FY94 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	205.00	0	0	0	205.00
Liquidation:	608.50	0	0	0	608.50
Total:	<403.50>	0	0	0	<403.50>

Travel liquidations were, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>	<u>Voucher</u>
4018	6187	205.00	2D Payment/Liquidation	57593
4019	6187	<400.00>	Tvl Advance Recoupment	58166
4019	6187	403.50	2D Payment/Liquidation	58166

The total entitlement should have been \$598.50. The FA adjusted or recorded the travel obligation based upon voucher 57593/\$205, which is probably a travel advance. It appears the traveler did not claim this advance. Traveler received an additional travel advance of \$400.00, which has not posted to this record. Settlement amount should have been <\$6.50>. Obligation should be adjusted to \$598.50. Travel advance of \$400.00 should be posted to this record and the \$205.00 advance should be coded as a 1K advance. Total liquidations should reflect the following:

205.00	1K
<205.00>	1K
400.00	1K
<400.00>	1K

605.00      Total Liquidations

Traveler was advanced \$605.00, and received an additional settlement of \$403.50. Traveler should remit \$410.00 - excess advance of \$6.50 and erroneous settlement made of \$403.50.

NULO: 403.50

Error Condition: FA-5T, DISB-2T

**ERROR CONDITION: DISB-1T**

10. M0068193T001763. FY93 travel order. Funds obligated and liquidated through June 30, 1995, as follows:

	<u>Per Diem</u>	<u>Travel</u>	<u>Other</u>	<u>Misc</u>	<u>Total</u>
Obligation:	406.00	0	0	1500.00	1906.00
Liquidation:	2181.89	0	0	2408.26	4590.15
Total:	<1775.89>	0	0	<908.26>	<2684.15>

Travel obligation had multiple payments and corrections processed against it, as follows:

<u>Cycle</u>	<u>DSSN</u>	<u>Amount</u>	<u>Transaction Summary</u>
4013	6187	1530.05	Travel Settlement
4013	6187	<1825.00>	Tvl Advance Recoupment
4015	6187	1530.05	Travel Settlement
4015	6187	<1825.00>	Tvl Advance Recoupment
4022	6187	1530.05	Travel Settlement - Misc Exp.
4022	6187	<1825.00>	Tvl Advance recoupment (Misc)

This record shows (3) settlements under voucher numbers, 55336, 55340, and 56061, for a total liquidation amount of \$4590.15 (3 \* \$1530.05). Each voucher reflects a travel advance recoupment of \$1825, although no travel advance is reflected in SABRS.

NULO: 2684.15  
Error Condition: DISB-1T  
Item Count: 1





## LIST OF REFERENCES

1. Secretary of Defense, Report of the Secretary of Defense to the President and the Congress, January, 1994.
2. Acquisition and Financial Management Working Group Report, Eliminating Unmatched Disbursement, A Combined Approach, June, 1995.
3. Commandant of the Marine Corps Letter, Validity of Unliquidated Operation and Maintenance, Marine Corps Obligations (93-0085), June 9, 1994.
4. Leroy Dowdle, Liaison and Technical Services Branch, Fiscal Division, Headquarters, Marine Corps, Senior Financial Management Seminar Briefing Package, March 15, 1995.
5. Comptroller of the Department of Defense, Memorandum for Secretaries of the Military Departments, Negative Unliquidated Balances/Disbursements In Excess of Obligations, March 31, 1994.
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